Debt Relief for Economics or Debt Relief for the People?: A Critical Analysis Of The Heavily Indebted Poor Countries Initiative

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I, Lucille Abendanon, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at an university for a degree.

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Abstract

The HIPC Initiative offers qualifying heavily indebted poor countries the opportunity to renege on their debt obligations in return for an emphatic commitment to poverty reduction and reform. This dissertation assesses the effectiveness of the HIPC Initiative in light of the fact that one third of the world's population continues to live on an average of US$1 per day. In evaluating the HIPC Initiative one simple question is posed: taking into consideration the abject poverty experienced by over a billion people in the developing world, and the urgency with which it must be addressed, is the HIPC Initiative extensive enough, deep enough or broad enough to effectively challenge worldwide poverty?

Using quantitative and qualitative research methods, the dissertation investigates this question by examining the divergent points of view offered by the World Bank and IMF on the one hand, and NGOs on the other as they comment on the most hotly debated issues surrounding the effectiveness of the HIPC Initiative. The analysis leads us to an evaluation of the following issues: establishing debt sustainability to qualify for HIPC relief; the issue of conditionality and the use of poverty reduction strategy papers; funding the HIPC Initiative; the likelihood of HIPCs escaping the debt trap after HIPC relief; and finally, how the HIPC Initiative is contributing to attaining the Millennium Development Goals is evaluated.

After probing the stances of the World Bank and IMF, and the contrasting views of NGOs the conclusions indicate that the HIPC Initiative is neither extensive, deep nor broad enough to effectively challenge poverty, or to provide indebted poor countries with a lasting escape from the burden of unsustainable debt.

Opsomming

Die Heavily Indebted Poor Countries (HIPC) Inisiatief bied aan arm lande met 'n groot skuldlas, wat kwalifiseer vir hulp, die geleentheid om hul skuldverpligtings af te las in ruil vir 'n definitiewe verbintenis tot armoede-vermindering en –hervorming. Hierdie verhandeling evalueer die doeltreffendheid van die HIPC Inisiatief teen die agtergrond van die feit dat een derde van die wêreld se bevolking op 'n gemiddelde van een Amerikaanse Dollar per dag oorleef. Hierdie evaluering van die HIPC Inisiatief stel 'n eenvoudige vraag: Is die HIPC Inisiatief voldoende en uitgebreid genoeg om die uitdaging van wêreldwye armoede aan te spreek indien 'n mens die uiterste armoede van meer as 'n biljoen mense in ontwikkelende gebiede in ag neem, sowel as die dringendheid waarmee dit aangespreek moet word?

Deur van kwantitatiewe en kwalitatiewe navorsingsmetodes gebruik te maak, ondersoek die verhandeling hierdie vraag deur uiteenlopende gesigspunte van die Wêreldbank en die Internasionale Monitêre Fonds (IMF) aan die een kant, en Nie-Regerings Orginisasies (NRO's) s'n aan die ander kant, te ondersoek aan die hand van hul kommentaar op die belangrikste kwessies oor die doeltreffendheid van die HIPC Inisiatief. Hierdie ontleding lei to 'n evaluering van die volgende kwessies: bepaling van lande se potensiaal om met terugbetalings vol te hou ten einde vir hulp deur die HIPC te kwalifiseer; die kwessie van voorwaardelikheid en die gebruik van armoede-verligtingstrategieë; befondsing van die HIPC Inisiatief; die moontlikheid dat die HIPC's die skuldstrikke na toepassing van HIPC-bystand sal ontsnap; en laastens, hoe die HIPC Inisiatief se bydrae tot die bereiking van die Millenium Ontwikkelingsdoelwitte geëvalueer word.

Die standpunte van die Wêreld Bank en die IMF sowel as die teengestelde sienings van die NRO's word ondersoek. Die gevolgtrekking toon dat dat die HIPC Insiatief nie uitgebreid, diep of breed genoeg is om armoede doeltreffend hok te slaan nie, of om skuldlastige arm lande te help om finaal van hul skuldlas te ontsnap nie.

HEAVILY INDEBTED POOR COUNTRIES

Source: Callaghy (2001)

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Chapter One: Introduction

1.1 Problem Statement

One billion people on this planet live in abject poverty. One third of the world's population does not have access to safe drinking water. The inequality between the developing and developed world is astounding. In Angola, for every one thousand children born, 192 die before the age of two. In Sweden, only four babies die for every one thousand born. In Botswana, life expectancy hovers just above thirty-five years of age, whilst in Japan, people live to an average of eighty-one. In Sierra Leone, GDP per capita income is US$510, whilst in Luxembourg it reaches US$36 400. In Sub-Saharan Africa, forty million children of school-going age do not attend school[1]. According to Oxfam International[2], it would cost US$8 billion to enable every child in the world to receive a primary school education over the next decade. This amount is the equivalent of half of what the United States spends on toys each year, or what is exchanged every nine minutes in international currency speculation. These statistics serve to illustrate the appalling reality of poverty, and how the solutions are within our grasp, yet just beyond the reach of our fingertips.

Growing concern for the plight of the poor began to manifest as early as the 1960s when NGOs began to take a stand against governments and multinational institutions believed to be oblivious to the devastating repercussions of the rise of capitalism and the free market. These repercussions were felt hardest in the newly independent developing world countries that were experimenting with the alien concepts of democracy and a neo-liberal free market economy. Instead of thriving, these countries contracted, being drawn further and further into the black hole of poverty until hope was snuffed out, expectations were dashed, and development became an impossible dream.

In an ill-conceived bid to temper the degeneration of many developing world countries, substantial loans were requested by developing nations. These loans were approved by industrialised nations and their monetary institutions in the belief that

[1] See: Johnson (2001); Husain (1996)

expansive economic growth would facilitate the swift repayment of these loans, which amounted to over US$200 billion. Three decades later, forty-one countries still bear the backbreaking burden of these loans, and are forced to sacrifice the health and education of their people just to service the interest of the loans. NGOs and developing world nations fought a never-ending battle as they worked tirelessly to bring the plight of these nations to the forefront of the development debate, in an attempt to impinge upon the consciences of those who could make a difference. The shift has been gradual, but industrialised nations eventually became awakened to the fact that the means of change lay within their capacity. The failure of neo-liberal policies in both Asia and Latin America also served to warn the developed world that the neo-liberal development construct was not infallible. Development resolutions and commitments became adorned with the phrases 'human development' 'poverty reduction' and 'poverty eradication', as a new development construct emerged and spread like wildfire.

The industrialised worlds' reaction to pleas for the amelioration of their debts is the Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative offers qualifying heavily indebted poor countries the opportunity to renege on their debt obligations in return for an emphatic commitment to poverty reduction and political and economic reform. This dissertation assesses the effectiveness of the HIPC Initiative in light of the fact that one third of the world's population continues to live in abject poverty.

The evaluation of the HIPC Initiative seeks to establish the effectiveness of the Initiative bearing one simple question in mind: given the abject poverty experienced by over a billion people in the developing world, and the rapidity with which it must be addressed, is the HIPC Initiative extensive enough, deep enough or broad enough to effectively challenge worldwide poverty?

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[2] See: Johnson (2001)

1.2 Theoretical Framework

In order to engage in a thorough exploration of the HIPC Initiative, it is imperative to appreciate the theoretical context in which it exists. The HIPC Initiative is a construct of the neo-liberal paradigm, and functions according to the basic premise that a free market economy is the primary driving force of economic growth and development. In this section, a theoretical base of the ensuing analysis shall be established through articulating the arguments for and against the global effectiveness of neo-liberalism; and suggesting conditions for the practice of an alternative more 'people-friendly' development theory.

1.2.1 The Forces of the Free-Market

'Neo-liberalism' is not a term used habitually by economists or politicians, especially in the United States, who choose rather to use the term 'free-market economy'. The theory of neo-liberalism has its roots in the seminal writings of Adam Smith, who in the mid-1770's called for minimal government regulation of the economy so that international trade could flourish (Finn; 2001: 2). Smith's ideas influenced politicians and economists for nearly two hundred years, and were only displaced from the 1930's to the 1970's by the pro-government intervention economics of John Maynard Keynes (Finn; 2001: 2). During this forty-year period, liberalism gave way to a more active role played by government in the functioning of the economy, advocated the expansion of public services and social programmes, and placed substantial constraints on corporate power (Finn; 2001: 2). This was brought on mainly by a loss of confidence of and credibility in the leaders of the capitalist world, who had failed to avert such crises as the first and second World Wars, the Great Depression, the Russian revolution, the rise of fascism, and the proliferation of anti-imperialism in the colonised world (Cammack; 2002: 158). The effectiveness of global capitalism was called into question, and the economic liberalism which had been the dominant global discourse of development was regarded with great scepticism (Cammack; 2002: 158).

The 1970's saw corporations regain their dominance and renew demands for deregulation and privatisation. This brought an end to government intrusion in the markets, and a rebirth of liberalism now called neo-liberalism (Finn; 2001: 2). The reimposition of liberal principles – also known as the neo-liberal revolution, or "common sense revolution" (Finn; 2001: 1) – saw a restructuring of relationships between capital and the state, and between state and society, with the aim of restoring the unfettered operation of 'market forces' (Cammack; 2002: 158). "These reforms were implemented in the advanced capitalist economies – notably Britain and the United States – as much as in the developing world" (Cammack; 2002: 158). The restructuring of international institutions to support and legitimise the drive toward the free market, which culminated in the creation of the World Trade Organisation (WTO) in 1995, "hastened, reinforced and completed processes under way at national level, as individual countries were explicitly invited to 'lock themselves in' to irreversible reform" (Cammack; 2002: 158). As the developed capitalist world consolidated their commitment to the free market, "the Soviet experiment with a state-controlled economy was brought to an end, along with those of Eastern Europe" (Cammack; 2002: 158). Therefore, by 1990, it was possible for the World Bank to claim a global consensus in favour of market-friendly policies (Cammack; 2002: 159).

Bond & Dor (2002), Finn (2001), Martinez & Gracia (2000), George (1999), and Rourke (1993), articulate the basic tenets of neo-liberalism. Neo-liberalism focuses on the functioning of the competitive individual within the context of the free market. Finn (2001: 3) states that within the free market, each individual in society is responsible for his or her own welfare. The driving force of neo-liberalism is the rule of the market, in which private enterprise is free from any bonds imposed by the state, a greater openness to international trade and investment exists, price controls are rejected, and the unimpeded movement of capital, goods and services is enjoyed (Martinez & Garcia; 2000: 2). The privatisation of public enterprises and services including, airlines, railways, telecommunications, health care, banks, schools etc, is considered essential by neo-liberals to ensure economic growth, competition, free trade and respect for the ownership of property (Finn; 2001: 3). Finn (2001: 3) states that decentralisation is another central aspect of neo-liberalism. The transfer of power and accountability from central to provincial or municipal levels improves equity, efficiency and accessibility for individuals. Neo-liberals see the market as the ultimate form of decentralisation, in that the consumer can access the widest range of goods and services from the widest choice of suppliers. In terms of health care and education, this facilitates the purchase of personalised services in the marketplace.

At the international level, neo-liberalism revolves around three fundamental points: free trade in goods and services; free circulation of capital; and freedom of investment (George; 1999: 9). For the purposes of this study, it is relevant to understand how the neo-liberal construct views development, especially the development of the underdeveloped world. Rourke (1993: 485) articulates the neo-liberal belief that development can be achieved within the existing international economic structure. For the neo-liberal, success or failure is measured in terms of aggregate economic indicators such as GNP, trade levels, employment statistics, and wage rates. With regards to the developing world, neo-liberals believe that the major impediments to the South's development are its "weaknesses in acquiring capital and its shortage in skilled labour" (Rourke; 1993: 485). These difficulties can be overcome through free trade and foreign investment supplemented by loans and foreign aid (Rourke; 1993: 485). Advocates of neo-liberalism maintain that another barrier to the South's achievement of national economic aspirations is irrational domestic and international state policies such as centralised planning and protectionism (Rourke; 1993: 485). The central argument of neo-liberalism with regards to the developing world is that free trade, free investment, and other unimpeded international economic exchange among states will eventually create prosperity for all. This will occur because an unencumbered system will promote efficient supply-and-demand relationships that reduce prices, stimulate demand, and create wealth from meeting that demand, thereby promoting growth that benefits all countries (Rourke; 1993: 485). Therefore, for neo-liberals, international economics is a non-zero-sum game as they look to "integrate less developed countries into the future world economic system by eliminating imperfections in the current system while basically maintaining its structure and stability" (Rourke; 1993: 485).

1.2.2 A Critique of Neo-liberalism

The re-emergence of the liberal practices espoused by neo-liberalism has come to dominate the global economic system, and has manifested itself throughout most of the developed and underdeveloped worlds (with the exception of countries such as China and Japan). Countries that refuse to implement reforms are considered to be glitches in an otherwise superlative and universal system. However, neo-liberalism is not the preferred system for many developing countries that simply cannot compete effectively in the world economy, due to factors ranging from unemployment to debt obligations that are greater than total income from exports. These countries inevitably are required to implement neo-liberal economic reforms to the detriment of the people. In this section, arguments both for and against the effectiveness of neo-liberal policies in the developing world shall be articulated. First, the arguments in favour of neo-liberal policies shall be articulated, followed by a rebuttal by those who believe that the doctrine of neo-liberalism is both inappropriate and fallible.

The most vociferous proponents for the current global neo-liberal economic system are to be found within the institutions that were constructed to uphold and legitimise the re-emergence of the free market doctrine: the World Bank and International Monetary Fund (IMF). The point of departure of neo-liberalism is the notion that rational individuals exist within society and are driven by the need to provide for themselves as best they can. It is human nature to want to progress spiritually, professionally and economically. According to Finn (2001: 3), citizens are individuals, not members of communities or even families, and it is thus the progress driven individual consumer that is the defining unit of society. Neo-liberals believe in "human potential, in the ability of individuals to change social situations for the better, in human rationality, and fundamental human equality" (Mahler; 1995: 37). Robbins (1999: 3) arrives at some powerful assumptions about human nature, that logically support the neo-liberal ideology, and lean toward a social Darwinist interpretation of the fundamental behaviour of humans: Firstly, humans are motivated by self interest and greed, expressed best through the pursuit of financial gains; secondly, competitive behaviour is more rational for individuals than co-operation, hence societies should be structured around this motive; thirdly, progress is measured by increased materialistic consumption and so ever more consumption should be favoured. Indeed, it does appear that the betterment of one's lot is a driving force of mankind, and as history has proved, the pursuit of man's desire shall not be thwarted. In the words of Alan Greenspan, Chairman of the Federal Reserve Bank, "markets are an expression of the deepest truths about human nature and…as a result, they will ultimately be correct" (Wade; 2002: 201). Therefore, it is argued that by accepting the principles of neo-liberalism, one becomes aware of the logic that the system is irrefutable (Finn; 2001: 3).

Mahler (1995: 59) maintains that the neo-liberal model of development is a linear one. He posits that developmental phases are passed in the same order, and that all countries go through the same development process. The developed world underwent the development process before the undeveloped world, which is merely at an earlier stage in the process. Mahler (1995: 59) states that the developing world will follow the evolution of the developed world. This position, believed to re-enforce the notion of a logical line of progression for developing countries, is advocated by both the IMF and World Bank, and is the reason for structural reform in the developing world, and the implementation of Poverty Reduction Strategy Papers (PRSPs) for HIPCs. This shall be elaborated on in Chapter Four. James D Wolfensohn, the World Bank President, is an avid proponent of the benefits of neo-liberalism. He firmly stands behind the World Bank's position that "market competition best defines and serves the public interest, because individuals can best express their choices through the market; individual freedom and prosperity are maximised as funds are allocated efficiently, people can purchase what they want at prices determined according to supply and demand, and wealth generated by private effort trickles down to the benefit of all" (World Bank; 1998: 5). The World Bank paper impresses upon the reader the importance of a benign state in the sphere of economics. "The state has neither the management capability to run the economy nor any legitimate authority to do so: indeed, far from benefiting society, state planning, state ownership of industries, state-initiated social programmes and state regulation of wages and economic policy should be avoided because they inevitably undermine entrepreneurial activity, diminish individual freedoms and lead to the inefficient use of resources. In sum, the best government is considered to be the least government" (World Bank; 1998: 5).

Robert Barro is an economist who remains loyal to his convictions that the free market is the most effective development strategy for developing countries. Barro (1999_a) contends that neo-liberal 'hardliners' argue for "a monetary policy aimed at maintaining price stability. Also central is fiscal restraint, low levels of public expenditure, efficient tax collections, low marginal tax rates, and effective debt management" (Barro; 1999_a: 24). Barro (1999_a: 24)[3] goes further to advocate policies that "promote growth through open trade market-oriented regulations, and laws that preserve property rights and law and order". Barro's most persuasive argument is that 'hard' neo-liberal policies enhance developing countries' development prospects. He substantiates this proposition by examining the economic consequences of income inequality. Neo-liberals propose the blanket implementation of the measures articulated by Barro (1999_a) above in the development process. Opponents to neo-liberalism maintain that these blanket measures are too drastic, and that the inequality that exists in most developing countries in fact hampers economic growth. These opponents argue that inequality must be addressed before total economic reform is implemented. Barro (1999_a: 24) however, maintains "the truth is that empirical evidence since 1960 reveals little relationship between the degree of income inequality and economic growth". He further qualifies this statement with examples: "Some countries with low inequality grew rapidly, such as Japan up to the early 1970s and South Korea and Taiwan over the past 30 years. Others grew slowly, including South Asia since 1960 and most of Europe in recent years. Some places with high inequality grew slowly, including much of sub-Saharan Africa and Latin America. But some grew quickly, such as Botswana, Brazil in the 1960s and Chile in the past 10 years". In this way, Barro qualifies his forceful arguments for the implementation of neo-liberal reform policies in the developing world.

Perhaps the most common argument in support of neo-liberalism is one coined by Margaret Thatcher. Britain's first female Prime Minister became renowned for her dedication to advocating neo-liberal reform both in Britain and abroad, which earned her the epithet 'the Iron Lady'. Thatcher was a disciple of Friedrich von Hayek, and a social Darwinist. The central value of Thatcher's doctrine was the notion of "competition between nations, regions, firms and between individuals" (George; 1999: 4). Thatcher justified her neo-liberal beliefs with a single word: TINA, an acronym for There Is No Alternative.[4] For Thatcher and other neo-liberals, the principles of neo-liberalism are irrefutable due to the over-powering logic of their conclusions that are reached through the observation of the most fundamental behaviour of humans: the need to compete.

[3] See also: Barro (1999_b: 22)

There is a growing body of vocal opponents against the implementation of neo-liberal practices in the developing world, especially in Africa. Chomsky (1999), Amin (1997), McEwan (1999), Gill (2000), Rodrik (2002), Palley (2002), Cammack (2002), and Williams & Young (1994) are just a few scholars and economists to speak out against the tyranny of the free market in the developing world. The central argument of those opposed to neo-liberalism is that whilst free market policies have brought wealth and development to the developed world, the developing world has not yet benefited from either the trickle down effect, or the promised rewards of economic liberalisation. As former World Bank Chief Economist Joseph Stiglitz said, "capital market liberalisation has not only not bought people the prosperity they were promised, but it has also brought crises, with wages falling 20 or 30 per cent and unemployment going up by a factor of two, three, four or ten" (Davis; 2000: 1).

Opponents of neo-liberalism simply do not accept the qualification that there is no alternative. Amin (1997: 7) states that this neo-liberal justification does not qualify neo-liberal policies, but merely highlights the cynicism and intolerance neo-liberals exhibit towards any alternatives. This cynicism is "not the solution but part of the problem". Both Amin (1997: 7) and MacEwan (1999: 67) urge that the state of the world is justification enough for the failure of neo-liberalism. "There is something deeply wrong in a society where a small group of people control the vast majority of wealth and receive incomes that allow them to live in luxury, whilst most of the people live in poverty" (MacEwan; 1999: 67). Opponents of neo-liberalism therefore exhibit a sense of moral outrage at the fact that an ideology responsible for the perpetuation of such inequality continues to be advocated.

Stephen Gill (2000) offers a strong criticism of neo-liberal practices in developing countries. He begins by referring to neo-liberalism as what Karl Polyani termed an attempt to create a "stark utopia" on a world scale (Gill; 2000: 1). Whilst this utopia may have been manifested for select pockets of civilised society, the majority of individuals in the world have yet to manifest their abundance. Gill (2000: 1) states "this stark utopia is in practice unachievable since it has in-built contradictions". On the one hand neo-liberalism is a process central to the intensification and extension of

[4] See also: Mcchesney (1999); Chomsky (1999)

alienation, exploitation and commodification of human life and nature. On the other hand, the "privatisation and marketisation of social life associated with the capitalist market order tends to atomise human communities and destroys the integrity of the ecological structures that support all life forms". It is therefore unsustainable politically, not least because different social movements and classes resist the destruction of their livelihood and the intensified discipline of capital that is central to neo-liberal globalisation. "Thus the central contradiction of globalisation is not that between capital and democracy…it is much broader and concerns the degree to which neo-liberal globalisation is serving to generate a crisis of social reproduction on a world scale" (Gill; 2000: 1-2).

Arthur MacEwan (1999: 58-59) echoes Gill's criticisms of the effects of neo-liberal policies in the developing world. MacEwan deals with many aspects of the effects of neo-liberalism on political and social aspects of society in the developing world. For this argument however, it is particularly relevant to acknowledge his comments on how the free market impacts on society. Proponents of neo-liberalism maintain, "social structure is not affected by changes in international commerce" (MacEwan; 1999: 58). MacEwan retaliates to this supposition by stating that neo-liberalism is simplistically narrow in that does not acknowledge or deal with a host of causal relationships that are central to economic development. Neo-liberal theory rests on the assertion that "all changes are viewed as adjustments on the basis of a fixed set of social relationships" (MacEwan; 1999: 58). This position is however contradictory. MacEwan posits that "any process that is the motor force of change must alter social structure, and the altered social structure must perforce have its impact on both international commerce and national economic development" (MacEwan; 1999: 59).

Neo-liberals advocate as little government involvement in and regulation of the market as possible. Opponents to neo-liberalism however, posit that government involvement is both required in developing countries, and enhances democratic practice. Chomsky (1999); McChesney (1999); MacEwan (1999) and Amin (1997) argue that neo-liberalism is fundamentally undemocratic. According to Chomsky (1999: 9), it is in the oppression of non-market forces that one is able to see how neo-liberalism operates – not only as an economic system, but as a political and cultural system as well. "Neo-liberalism works best when there is a formal electoral democracy, but when the population is diverted from the information, access, and public forums necessary for meaningful participation in decision-making" (Chomsky; 1999: 9). Neo-liberal guru Milton Friedman concluded, "because profit-making is the essence of democracy, any government that pursues anti-market policies is being anti-democratic" (Chomsky; 1999: 9). Chomsky (1999: 10) retaliates with a two-part argument. Firstly, "the social inequality generated by neo-liberal policies undermines any effort to realize the legal equality necessary to make democracy credible" and secondly, "to be effective, democracy requires that people feel a connection to their fellow citizens, and that connection manifests itself through a variety of non-market organisations and institutions" (church, community centres, public schools, libraries, trade unions etc). He goes on to argue that neo-liberal democracy "takes dead aim at this sector. Instead of citizens, it produces consumers. Instead of communities, it produces shopping malls. The net result is an atomised society of disengaged individuals who feel demoralised and socially powerless" (Chomsky; 1999: 11). The author therefore believes that "neo-liberalism is the immediate and foremost enemy of genuine participatory democracy" (Chomsky; 1999: 11).

Opponents of neo-liberalism therefore argue for a return to the Keynesian practice of increased government regulation in developing world economies. They advocate an increase in both protection of industries, especially of agriculture, and the level of democratic participation in economic reform. This 'bottom-up' approach to economic growth will ensure that neo-liberal policies such as PRSPs are no longer forced upon developing nations to the detriment of the people.

1.2.3 An Alternative Development Strategy

The preceding section has described the ideological climate within which the HIPC Initiative operates, namely the neo-liberal construct. This was followed with an articulation of the contending points of view regarding the effectiveness of neo-liberalism as both an economic system and development strategy for the developing world. The purpose of this dissertation is to critically analyse the HIPC Initiative bearing in mind that it is a characteristically neo-liberal innovation. The conclusion reached is that due to its inherent characteristics, discussed in detail in Chapter Four, the HIPC Initiative has failed to reduce poverty and increase development. It is therefore logical to deduce that the theoretical framework from which the HIPC Initiative springs is also inept. In short, neo-liberalism has failed the developing world.

This realisation begs the question: if not neo-liberalism, what? Indeed there are many theoretical alternatives to neo-liberalism such as Communism and Socialism that advocate increased government regulation in the market. This section shall construct a proposed economic and development strategy that may be applied to the developing world. This strategy draws upon many doctrines such as neo-liberalism, socialism and dependency theory, and is best described as an amalgamation of the most moral, people-friendly, and democratic attributes of the above-mentioned theories. The proposed theory will draw heavily from the works of MacEwan (1999), Chompsky (1999); Amin (1997), Rodrik (2002), Therien (2002), and Palley (2002). It appears that throughout the literature, the 'alternative to neo-liberalism' does not have one defining name. MacEwan refers to this development strategy as the 'democratic economic development strategy', whilst Amin (1997: 5) refers to his proposition as "an alternative humanist project of globalisation consistent with a socialist perspective". Some authors refer to 'social democracy', others to 'moral humanism'.[5] For the purposes of this study, the alternative to neo-liberalism outlined below shall be called the 'third way'.

Before proceeding, it must be noted that the alternatives proposed below are tailored to suit the ensuing analysis of the HIPC Initiative. Although the sourced authors propose radical changes in the current economic system, it is not realistic to call for a dismantling of the neo-liberal approach when it comes to improving the HIPC Initiative, as this would take generations, time the poor do not have. Instead, changes to the neo-liberal paradigm are suggested that are thought to have the most realistic chance of being implemented by the IMF, the World Bank, and donor nations. As Arthur MacEwan says, "However desirable sweeping change may be, it is not enough to advocate particular programmes that have no chance of implementation without revolution. If the goal is to alter the nature of the system and make a difference in people's lives, then we need to formulate and implement practical programmes that

[5] See: Gerring (2001)

both improve economic conditions and challenge the structure of social-political power" (MacEwan; 1999: 15).

The belief that democracy should be the basis for an economic development strategy is drawn from the writings of Arthur MacEwan (1999: 2). Besides the basic precepts of political democracy (elections, civil liberties and the right to organise etc) MacEwan advocates a democratic economic development strategy. This entails placing the "people in a position to participate in decisions about and effectively exercise political power over their economic lives. It puts people in a position where their lives are not dominated by either the market or the state. A democratic strategy also delivers the benefits of development to the population generally and thereby enhances their power" (MacEwan; 1999: 2). The implementation of PRSPs may indeed be a move that gives more decision-making power to HIPC governments in that development strategies are more country-owned. However, as Chapter Four will state, PRSPs still enforce the principles of neo-liberal reform dictated by the World Bank and IMF.

MacEwan posits that democratic economic development involves economic growth, the increase in the amount of goods and services available to people, and an improvement in the standard of living of the great majority of people. This can be accomplished only with a relatively equal distribution of income; the preservation and repair of the physical environment; the maintenance and strengthening of social community; and broad participation in decision-making about political, social and economic affairs (MacEwan; 1999: 2), all of which have been denied by the neo-liberal doctrine. The democratisation of economic development is an issue that has been acknowledged by the World Bank in its World Development Report 1997. MacEwan (1999: 9) refers to the report: "the Bank acknowledges the essential role of the state in promoting and providing the framework for economic development. Furthermore, in 1998 the Bank's chief economist claimed that 'we have broadened the objectives of development to include other goals like sustainable development, egalitarian development, and democratic development'". Both the World Bank and IMF have recognised that a relatively equal distribution of income can be a foundation for successful economic growth. Despite the fact that neo-liberals such as Barro (1999_a) believe there is no correlation between inequality and economic growth, the World Bank and IMF have shifted towards the moral notion that inequality is by no means a desirable condition of modern society.

It should be clarified here that in advocating the role of the state in the market, MacEwan is not advocating a strong oppressive state. Instead he is campaigning for a particular kind of state in which democratic principles are adhered to, and in which state power is not abused by elites. Therefore, limits on state power are still necessary. "Even when we recognise the importance of strong state action to limit or eliminate the social devastation and inept operations of markets, limits on state power should still be an important concern" (MacEwan; 1999: 20). Therefore the IMF and World Bank should continue to play an important role in encouraging developing nations to democratise.

MacEwan (1999: 97) reaffirms the necessity for a strong democratic state in any development strategy followed by the developing world. He fundamentally disagrees with the neo-liberal assertion that development is linear, and that the developing world are treading the same path towards development as the industrialised world. The ethnic and cultural diversity of many developing countries is reason enough to justify the supposition that each country's path to development is different. Other factors such as colonial history, geographical location, natural resources, debt and population size also play a vital role in the type of development strategy best suited to a developing country. In MacEwan's words, "democratic action is needed because there is no 'natural' sequence of events by which markets generate greater equality as economies grow" (MacEwan; 1999: 97).

Amin (1997) is concerned with the effects of globalisation on the developing world. Whilst his arguments are not all relevant for the purposes of this study, he does pose the poignant question: "does modernisation within the capitalist framework lead to 'catching up', that is to say, to the abolition of worldwide polarisation? And if so, does the outcome depend on the internal national conditions?" (Amin; 1997: 145). Indeed, from the criticisms of neo-liberalism explored in this dissertation, it is apparent that the capitalist system, which is the driving force of globalisation, is creating a greater divide between people, and is not serving to unite the world. The abolition of worldwide polarisation will not occur until there is a greater equality in the distribution of global wealth. Relating this question back to the effectiveness of the HIPC Initiative, it will become clear that within the confines of the neo-liberal paradigm, the HIPC Initiative serves to further perpetuate inequality, as debt relief and development practices continue to be dictated from above, and under the conclusion that inequality does not hamper economic growth.

Amin (1997: 39) is concerned with re-establishing the unity between the economic and the political sphere. This echoes MacEwan's call for a democratic development strategy. This is central to any development theory that opposes neo-liberalism, as neo-liberals believe that whilst political stability is required for the smooth functioning of the free-market, the actions of the economy do not impact on a country's political agenda. This is simply not the case. Amin (1999: 40) calls for reform at the three levels of necessary action: local, national and global. At the local level, democracy must be entrenched so that citizens become genuine agents of economic initiative and thus create a link between the economic sphere and political, social, and cultural life. At the national level, Amin states that the subordination of outside relations to the logic of internal development is unavoidable. The development strategy of a country depends on situations that vary greatly from one country to another. Perhaps the most relevant conclusion drawn from Amin (1997: 40) is that "it is a matter of forcing the world system to adapt: not only of imposing a vision of adjustment within stagnation, but also of replacing the concept of unilateral adjustment with the concept of mutual adjustment".

This leads to the relevance of dependency theory in developing an alternative to neo-liberalism. "Dependency theory began as a Third World reaction to Western assertions that the underdevelopment of the Third World was the inevitable result of the backwardness of its cultures and traditions" (Palmer; 1989: 293). The basic assumption of dependency theory is that "underdevelopment [is] not simply a temporary condition leading, eventually, to development; rather, it [is] directly related to – and some say caused by – the expansion of capitalism and industrialism elsewhere in the world" (Mahler; 1995: 59). Dependency theory maintains that "modern developing nations differ in significant ways from the industrialising Western nations of the past; that the world economic conditions inflict constraints on today's developing nations; and that there is an interaction between political, social, and economic factors in the process of development" (Mahler; 1995: 59). These properties of dependency theory are relevant to the formation of an alternative to neo-liberalism for two reasons. Firstly, the theory advocates the link between the political, economic, and social spheres of life, the acceptance of which is crucial to the democratisation of the economy. Secondly, dependency theory requires that the developed world take at least partial responsibility for the crisis of debt and underdevelopment in the developing world. For dependency theorists, "the state of underdevelopment [is] not the starting point for Third World countries, but the end-state or outcome of centuries of economic exploitation and political domination by European powers as well as the United States" (Lane & Ersson; 1994: 17).

As is discussed in Chapter Two, section 2.3, placing the blame for the insurmountable debt incurred by the developing world is a tricky business. The conclusion reached is that the lender nations were at fault for approving and encouraging such risky loans, and debtor nations are guilty of misappropriation of the funds and poor economic policies that did not support development. Further, dependency theorists maintain that because the world possesses finite resources, for some states to be rich, others must be poor (Palmer; 1989: 294). This relates directly to the proposition of anti-neo-liberals that the neo-liberal system is perpetuated by those with accumulated power, and who maintain their power at the expense of the poor masses. Dependency theory is important to the analysis as it encourages the developed world to take responsibility for the wrongs of its past. This responsibility can come in the form of a debt relief initiative that will release the developing world from debt and allow it to develop according to its own development strategy.

To merely criticise neo-liberal policies is not a sufficient rebuttal. Instead, practical, workable alternatives are more likely to change the face of development in the developing world. Dani Rodrik (2002) calls for a moulding of the neo-liberal paradigm to fit the developing world. His assertions are crucial to this study, as they are realistic and not radical. Rodrik (2002: 9) finds fault with the Washington Consensus in that it is an "impossibly broad, undifferentiated agenda of institutional reform. It describes what 'advanced' economies should look like, rather than proscribing a practical, feasible path of getting there". Rodrik correctly states that the challenge facing the Washington Consensus is to "provide an alternative set of policy guidelines for promoting development, without falling into the trap of having to promote yet another blueprint that is supposed to be right for all countries at all times" (Rodrik; 2002: 9).

Rodrik (2002) posits that not all neo-liberal policies are unsuitable for the developing world. He summarises the neo-liberal principles he believes should remain central to a new development strategy. Firstly, Rodrik advocates the provision of property rights and the rule of law so that investors can expect to retain the return on their investments. Secondly, Rodrik recognises the importance of private incentives and aligning them with social costs and benefits so that productive efficiency can be achieved. Thirdly, managing financial and macroeconomic policies with due regard to debt sustainability, prudential principles, and sound money so that inflation, macroeconomic volatility, and financial crises can be avoided. This is extremely relevant both to HIPCs that are attempting to stabilise their economies in order to receive debt relief packages, as well as the few HIPCs to have benefited from the HIPC Initiative, and are faced with the challenge of maintaining a sustainable debt burden. Fourthly, Rodrik (2002: 10) strongly advocates the goal of economic growth, as "problems of poverty and the environment are much easier to handle in the context of robust economic activity than under stagnation. Finally, Rodrik (2002: 10-11) supports the process of globalisation. The problem, he states, is not with globalisation, but with the skewed agenda that governs it at present. By the 'skewed agenda' Rodrik (2002: 11) is referring to "an agenda that excessively privileges liberalisation in trade and financial markets, while completely disregarding the much larger gains to be had from liberalising trade in labour services – the one thing that developing countries have plenty to sell". In the neo-liberal development theory, development is an agenda that ignores the developing countries' legitimate needs to have the policy 'space' and autonomy within which they can develop their own strategies. It is an agenda that equates a so-called 'development round' almost fully with liberalisation in agriculture, even though the primary beneficiaries from this agenda are the advanced countries themselves, and many poor, food-importing countries are likely to lose out. (Rodrik; 2002: 11).

Concerning trade liberalisation, Rodrik is quoted in a World Bank report (1998: 29) calling for policy makers to "steer a middle course between responding to the concerns of social upheaval and sheltering groups from foreign competition through protectionism. Trade-offs between maintaining 'social cohesion' and opening borders to trade are inevitable, but it makes little sense to sacrifice social concerns completely for the sake of liberalisation".

Palley (2002) is concerned with the importance of domestic demand-led growth for developing countries. The author states that the Washington Consensus "cannot produce shared and growing prosperity for working people in either the industrialised or developing worlds" (Palley; 2002: 33). In the wake of the string of recent financial crises (in Asia, Latin America and Africa) attention has focused on the international financial architecture. Remedying the existing crisis prone architecture is a necessary step, but it is not enough. "instead, there is a need for a new development paradigm that emphasises domestic demand-led growth. Effecting this new paradigm will require a constellation of policy changes that includes enhanced labour and political rights, financial market reforms that ensure stable capital flows and temper capital market discipline, and a G-7 global growth agenda that includes adequate fairly priced financing for development" (Palley; 2002: 34). According to Palley (2002: 34) the current export-led growth advocated by the Washington Consensus, with its emphasis on exporting and trade liberalisation, has had a negative impact on developing countries. "Firstly, it had tilted the focus away from development rooted in domestic market growth. Secondly, it has placed developing countries in a race-to-the-bottom competition with each other. Thirdly, it has placed workers in developing countries in conflict with workers in industrialised countries. And fourthly, it has harmed the global economy by creating an environment of excess capacity and deflation. Exporting will remain essential for development to enable countries to pay for imports pf capital goods and other needed resources. However, the challenge is to avoid exporting becoming such a dominant focus of policy that it distorts and retards development" (Palley; 2002: 34). The HIPC Initiative places a high premium on a countries' level of exports, and employs debt-to-export ratios when assessing debt sustainability (see Chapter Three). It shall be argued in Chapter Four that the debt-to-export ratio indicators are too narrow, and exclude some countries with debt burdens from qualifying for HIPC assistance. Following Palley's argument (2002) it is clear that the World Bank and IMF should consider moving away from their emphasis on export-led growth, and advocate domestic demand-led growth. This move ties in with the suggestion made in Chapter Four that debt-to-export ratios should be replaced with social spending-to-debt ratios.

In summarising his argument in favour of domestic demand-led growth Palley (2002: 36) posits that the global trading system must be made the servant of domestic development, and domestic development must not be foregone for the sake of international competitive advantage. Palley (2002: 36) advocates the use of labour standards in order to promote good governance and reduce corruption as well as the imbalance of power wrought by the current economic system. The author notes the importance of institutions for development. The IMF has moved from 'first generation reform' that advocated countries "getting their exchange rates, interest rates, and budget deficits right" (Palley; 2002: 37), to 'second generation reform' that acknowledges the importance of institutions which promote transparency, accountability and good governance, thereby guarding against the misallocation of resources.

Palley (2002: 30-40) calls for the G-7 to participate in restructuring the global economy, so that the economy does not rely on juts the single engine of US growth. Palley calls for the greater involvement of industrialised countries in providing development assistance to the developing world. This issue is addressed in Chapter Four, section 4.2.3. According to Palley (2002: 39) a G-7 growth agenda will increase demand for developing country exports, thereby providing the finance to pay for imports needed as part of domestic demand-led growth.

"The challenge for Northern governments, as it is for their Southern counterparts, is to harness the market to the cause of social justice through regulatory measures designed to generate and distribute wealth more equitably" (World Bank report; 1998: 37). This section has served to highlight some of the principles an alternative theory to neo-liberalism may incorporate. The alternatives are realistic and are both pro-growth as well as pro-poor. In summary, the alternative approach to neo-liberalism, which for the purposes of this study shall be termed the 'third way', encompasses the following broad principles: employment of a democratic economic development strategy with increased government regulation of the market; a commitment to globalisation but with a more equal distribution of income and resources throughout the world;

increased responsibility by the developed world for the debt problem experienced by the developing world; a commitment to economic growth but without the compromise of forced liberalisation; a shift from export-led growth to domestic demand-led growth; and finally, a shift in G-7 policy that increases development assistance from industrialised countries other than the United States and Britain.

1.3 Motivation for Theoretical Framework

It is clear that the neo-liberal system of development has failed the developing world. Rather than accepting the argument that there is no other alternative, it is of vital importance that academics, scholars, and economists explore other development strategies to help the poor. There is a moral imperative for reform, as it is difficult for many people having seen the effects of poverty and underdevelopment in the world, to turn away and ignore that it exists. From this moral standpoint, it is simply not adequate to analyse the HIPC Initiative from within the neo-liberal construct. Instead, alternatives must be offered that give development a human face. The approaches proposed above serve to do this.

The term 'third way' is appropriate for the alternative development theory amalgamated in the preceding section, as the IMF, World Bank, United Nations, WTO and donor nations have begun to acknowledge the primacy of development in tandem with economic growth. This is indeed a revolution that is slowly happening with more neo-liberal institutions expressing their concern for the human dimension of development. The participation of these institutions is paramount to any alternative development strategy as to ignore their significance and power would be unrealistic, especially with regards to the relatively short-term objectives of releasing HIPCs from their unsustainable debt burdens. The total dismantling of the Bretton Woods institutions as proposed by some scholars is unrealistic at present, therefore necessitating an approach to reform that can accepted and implemented by these institutions.

Therien (2002: 241) documents the emergence of the third way as a result of the blurring of the Left-Right divide with regards to multilateral politics. The author confirms that the Bretton Woods institutions have adopted a more flexible approach to deal with the problem of third world debt. This is illustrated by the IMF and World Bank replacing the Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility which propose the use of PRSPs. Although it is argued throughout this dissertation that the IMF and World Bank are not doing enough to eradicate poverty, one cannot ignore the progress already made in the policy applications of these institutions. The 'third way' merely invites these institutions to take a further step in the direction in which they are already headed.

Therien (2002: 247) notes reasons for this new attitude. The increase pressure from NGOs, as documented in Chapter Two, combined with the financial crisis of 1997 and its repercussions in Asia, Russia and Latin America was a turning point. Indeed, the Asia crisis was the most extensive and harshest crisis since the IMF and World Bank were established (Therien; 2002: 247). Besides the human suffering that it brought about, the principal consequence of the crisis was to shake the foundations of neo-liberal orthodoxy. More specifically, the crisis illustrated the negative effects of globalisation by demonstrating how developing countries remained vulnerable to external shocks (Therien; 2002: 247).

Therefore, the third way is a fundamental development strategy to counter the neo-liberalism strategy of economic growth that has clearly been ineffective in reducing poverty or promoting development.

1.4 Purpose and Significance of Study

The HIPC Initiative is the most comprehensive debt relief framework to be implemented since the debt crisis began in the late 1970's. The Initiative creates the space for the awkward amalgamation of morals and economics, as the world moves slowly away from the competitive-adversarial pursuit towards a more co-operative means of existence. The severity of poverty however, is such that it extends beyond the scope of conventional applications. Bearing this in mind, one is faced with the question, 'is the HIPC Initiative extensive enough to begin to sever the bonds of debt and poverty forever?' It is the intention of this dissertation to argue that the debt relief mechanism of the HIPC Initiative is deficient, its scope inadequate, and its commitment lacking.

Following this introductory chapter, a broad history of debt and debt relief mechanisms will be sketched. The background of debt, and its causes will be explored, followed by a section on where the liability for such negligent lending and borrowing lies. Chapter Two will then document the past approaches to debt relief, as well as contemporary debt relief efforts, in a bid to set the scene for the in depth description of how the HIPC Initiative works in Chapter Three. A crucial aspect of Chapter Two is the distinction between 'debt relief for economics' and 'debt relief for people'. This is a central concept that runs throughout the dissertation, as it is the basis upon which the analysis of the HIPC Initiative rests. The concluding question posed in Chapter Two is 'where to from here?' and it opens into the ensuing narrative of the HIPC Initiative in Chapter Three.

Chapter Three endeavours to paint a clear and precise picture of the machinations of the HIPC Initiative. Critical areas of its functioning are addressed, such as who qualifies for assistance; how the Initiative works; who funds the Initiative; progress so far; and the impact of the Initiative on social spending.

The explanatory nature of Chapters Two and Three act as a springboard for the critical analysis of the HIPC Initiative in Chapter Four. The purpose of this chapter is to highlight and unravel the most salient weaknesses and shortcomings of the Initiative as it operates within the neo-liberal paradigm, whilst offering a balanced discussion of the opposing views. The HIPC Initiative is evaluated against a number of criteria, which include: the mechanisms for establishing debt sustainability; the inclusion of Poverty Reduction Strategy Papers (PRSPs); the problem of funding; and prospects for escaping the debt trap. The chapter also explores how effective the HIPC Initiative is in light of the Millennium Development Goals that have been set for 2015.

Chapter Five offers a concise conclusion, relating the arguments explored throughout the dissertation back to the problem statement. The chapter posits suggestions for the way forward with regards to the HIPC Initiative, and makes reference to further possible avenues of research.

1.5 Points of Clarification

The first point of clarification concerns the predominant focus on African HIPCs throughout the dissertation. Thirty-seven of the forty-one HIPCs are to be found in Africa. For this reason, there is a proliferation of information on HIPCs in Africa. It is in Africa that poverty is at its worst, and life seems most hopeless, and it is the African continent that has struggled under structural adjustment programmes. It is however, not the aspiration of this dissertation to limit the discussion to African countries. Vietnam is of vital importance to the debate, as the country is required to spend over US$4 billion annually to reach the MDG targets by 2015. How will the HIPC Initiative ease this country's debt burden?

The second point of clarity is the terms used to describe the countries that are not industrialised. The term 'HIPC' refers to only the 41 countries termed as heavily indebted poor countries under the HIPC Initiative (see Chapter Three for a list of countries). The terms 'developing world', 'underdeveloped world', 'industrialising nations', 'third world', and 'South' relate to those countries that lag behind the industrialised nations of the world in terms of development. These terms include all HIPCs. Throughout this dissertation the above terms are used interchangeably.

The third point of clarification concerns the conceptualisation of poverty and its relation to development. The definition of poverty is subjective in nature as it depends largely on value systems, and therefore varies from person to person (Allen &Thomas; 2000: 11)[6]. A widely accepted definition of poverty is used by Allen &Thomas (2000: 12-13): "Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diets, participate in the activities and have living conditions and amenities which are customary, or at least widely accepted and approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities".

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[6] *See also:* Hanmer, Pyatt & White (1999:3-4)

However comprehensive this definition appears to be, it does not offer any material measurement of what poverty is. Does it mean that a family living in a developing nation is poor because they do not own a refrigerator or oven, even though they have enough food to eat? For the purposes of the HIPC Initiative, poverty needed to be established in an objective manner so that it would be both measurable and comparable. For this reason, the World Bank uses income measures to ascertain levels of poverty of an individual or household. This is done in economic terms by measuring a person's income and establishing a 'poverty line', which represents an income level below which a person is held to be in extreme poverty. The global target for reducing poverty uses a single poverty line for the whole world, so that those in extreme poverty are those whose income is less than US$1 per day (measured in 1985 PPP dollars). It is then possible to think of measuring the proportion of the population of a country below that poverty line, since there are enormous difficulties associated with direct measurement of individuals' incomes on a large scale (Allen & Thomas; 2000: 10-11). This dissertation shall follow the World Bank's conceptualisation of poverty as being a daily income of US$1 or less.

Expanding upon this measurement of poverty, the World Bank measures a country's level of development by examining its gross national product (GNP), which uses market valuations, and is in practice a measure of national income. GNP per capita gives an indication of the average material living standard of a nation's people (Allen & Thomas; 2000: 11). By measuring poverty levels in a country and comparing them to that country's development levels, it is possible to observe the relationship between poverty and under-development. It should be noted however, that measuring a country's development according to its GNP has severe limitations. "GNP per capita is a measure of average income based on market valuations, and hence there are several ways in which the measure fails to give a full indication of the incidence of poverty" (Allen & Thomas; 2000: 11). Being an average, GNP per capita says nothing about the distribution of wealth between rich and poor. Also, in general, GNP as an indicator underestimates subsistence goods and overvalues whatever is commercialised (Allen &Thomas; 2000: 11)[7].

[7] See: Allen & Thomas (2000: 13) for a comprehensive discussion on the dimensions of the poverty debate; and Allen & Thomas (2000: 12) for a more in depth look at the limitations of using GNP per capita as a measure of development.

1.6 Methodology

This dissertation is both quantitative and qualitative in nature. In the process of analysing the HIPC Initiative and its effectiveness, both quantitative and qualitative techniques will be used. The qualitative element of this study will be primarily based on the descriptive dimension of research which is predominant in chapters two and three, with the ensuing explanatory dimension being used mostly in chapter four. Quantitative data techniques are used throughout the dissertation, but to a lesser extent.

As far as possible, World Bank and IMF statistics and figures will be used. The most recent data available is April 2002. Other authoritative sources such as the United Nations Commission on Human Rights Report are also used for the more qualitative arguments. Research for this dissertation is derived from secondary sources and includes academic analyses, newspaper articles, magazine articles, official IMF and World Bank status of implementation notes, journal reports, speeches, press releases, UN reports, conference presentations, and finally, in depth internet content. No survey research was done for this dissertation.

1.7 Conclusion

This chapter has served as a roadmap of the ensuing chapters of this dissertation. Its purpose has been to articulate the problem statement of this dissertation, to establish in which theoretical framework the analysis of the HIPC Initiative is based, to clarify the use of certain terminologies, and finally, to indicate the scope of research resources used.

Chapter Two: A History of Developing World Debt

2.1 Introduction

The debt crisis in developing countries is accepted as a balance of payments problem in which indebted nations are unable to service their debts. The balance of payments is defined as, "a systematic record of all the economic transactions between the residents of the reporting country and the residents of the rest of the world over a specified period of time (usually a year or a quarter) (Du Plessis, Smit and McCarthy; 1994: 201). Due to the fact that most indebted countries import more than they export, their balance of payments is in a state of disequilibrium (Pass & Lowes; 1993: 30). The balance of payments disequilibrium is entwined with the balance of trade deficit[8] that exists throughout the developing world. It is this cycle of spending more than they are earning that prevents indebted countries from honouring their debt servicing obligations. This chapter shall not, however attempt to reduce the debt problem to purely an issue of skewed trade relations.

This chapter shall explore the causes of the debt burden experienced by most developing countries, as well as delve into opposing opinions on who is to blame for this quandary, or if blame falls upon all incumbent parties. The chapter probes the change in perception towards developing world debt that grew throughout the 1960s, gathered momentum in the 1980s and became a manifest reality in the last decade of the 20th century. The chapter will outline debt relief measures used in the past, and then focus on debt relief initiatives in the 21st century.

2.2 The Background of Debt

The developing world's torrid spiral into debt is recognised in academic circles[9] as being brought on by the oil shocks of 1973-1974 and 1979-1981, and the resulting

[8] The balance of trade is a statement of a country's trade in goods with the rest of the world over a particular period of time (Pass & Lowes; 1993: 30).
[9] See: Dent & Peters (1999: 1-13); Gent (2001: 2, 18, 21); Huw (1999: 1); Johnson (2001; 2); Ransom (1999: 1) Susungi (1993: 107-114)

glut of petrodollars on world markets. This chapter will forge slightly further through the annals of history in order to set the scene of how the debt crisis came to be, against which we may fully understand the nature and urgency of modern day debt relief efforts.

In order to understand the contemporary causes of the debt crisis, it is pertinent to be aware of the international political climate in the post-war era. The division between governments that broadly favoured a liberal, laizzez-faire economic system and those that adopted the Marxist-Leninist or Keynesian approach to the market became deeply manifested in the post-war era. This division effectively pitted the world into two camps. The victory of the Allies in World War II firmly entrenched the Capitalist way of life throughout the developed world. Development became the *mot de jour* throughout the West, as trade, multilateralism and a sense of invincible heroism pervaded the developed world. In the wake of the Second World War, the United Nations, the World Bank and the International Monetary Fund were established. These institutions were primarily designed to protect the political and economic interests of the developed world with the United States of America at the helm, and to set the agenda for global development. The Marshall Plan was implemented to rebuild Europe, and as the West thrived, the South fell more and more behind. 1960-1980 is known as the 'golden age' of development planning, in which the international community strove to project Keynesian liberalism from the domestic into the international arena (Therien; 2002: 238). Government intervention in the economy was favoured over the liberal concept of a free market economy. It was in this time of government regulation of the market that the Marshall Plan was implemented to rebuild Europe.

With the re-emergence of liberal market practises articulated by neo-liberalism, and more countries, particularly in Africa, gaining their independence, there was a frenzied rush to secure development funds so that the widening gap between the developed North and the lagging South could be minimised, thereby bringing the world to the development standard demanded by Capitalism and the free market economy. Dent & Peters (1999: 5) state that the drive towards development was supported by most of the European metropolitan powers – Britain, France, Belgium, Spain, Holland and Portugal – which had foreseen the demand for improved conditions in their colonies and had set up development plans, in some cases before the end of the War. These development plans were quickly superseded by neo-liberal multilateral[10] institutions such as the United Nations, the World Bank and the IMF, which offered the developing South development programmes (Dent & Peters; 1999: 5).

The flow of development funds was the result of a symbiotic relationship between the debtors and the creditors. For the debtors, concessional lending meant that large amounts of money were flowing into their banks. These funds were meant to kick-start development, but the nature of political leadership in many African countries after independence was such that a sizeable portion of the development funds lined the pockets of mendacious rulers. For the creditors, who viewed the lack of development in the Third World as being a direct result of weak economic activity, and a lack of commitment to neo-liberal reform, the loans issued in this period were not considered as high risk. The pervading belief was that as soon as the economies of the developing nations became less sluggish and embraced the neo-liberal notion of a free-market, the loans would be paid back in full. The creditors also recognised that by approving huge loans to nations that were balanced precariously between Capitalism and Communism or Socialism, they could induce them into joining the free market camp. It was thus apparent that "development was a useful tool for securing countries' votes for or against resolutions before the Assembly where the interests of the protagonists in the Cold War were engaged" (Dent & Peters; 1999: 5). Dent & Peters (1999: 5)[11] term the period between the 1960s and 1970s the 'golden age' for both lenders and the borrowers, as hopes began to stir for a steadily improving world where the extremes of poverty and deprivation might be banished, providing a modest competence for all.

This reciprocal cycle occurred against the background of persistent danger of nuclear conflict and increasing confrontation between the Cold War protagonists (Dent & Peters; 1999: 5). During the 1970s and early 1980s, the two oil shocks reverberated

[10] It is necessary to distinguish between the three main groups of creditors: Multilateral creditors include the World Bank, IMF and AfDB. Bilateral creditors include the Paris Club and other non-Paris Club government lenders. Private or Commercial creditors are comprised of banks and other commercial institutions that lend money to developing nations (see chapter three for a comprehensive breakdown of the main creditors).

around the globe bringing home the hard reality that the neo-liberal world economic system was prone and susceptible to volatility. The first oil shock in 1973-1974 was brought about when the Organisation of Petroleum Exporting Countries (OPEC) decided that their cartel was strong enough to challenge the world by raising oil prices (Dent & Peters; 1999: 5). This oil price capriciousness was absorbed by world markets. The second oil shock in 1979-1981 "provoked even more alarm than the first...and very nearly triggered an economic collapse which might have been as serious as the crash of 1929" (Dent & Peters; 1999: 5). The machinations behind this economic impetuousness was that the "capital accumulation in the main oil producers was so great that the world banking system was almost overwhelmed, as they pushed their surpluses into that system" (Dent & Peters; 1999: 5). The quadrupling of oil prices triggered the most massive and sudden transfer of income ever known to oil-producing countries, which were physically unprepared to absorb the resources (Susungi; 1993: 107). As a result, interest rates declined sharply, and billions of dollars flowed into countries' overseas accounts. Large banks and money centres of the United States found themselves with ballooning short-term deposit accounts without having given any serious thought to how and where such large volumes of capital could be lent for profit (Susungi; 1993: 107). A method had to be found for disbursing the accumulation. This culminated in the 'great lending spree' of 1977-1978 (Dent & Peters; 1999: 5)[12].

With development still very much on the agenda of both the developed and developing worlds, the West turned their generosity towards the South. Excess capital inflows from the oil shock were redirected to "oil-importing developing nations whose foreign reserves were being cleaned out by their oil import bills. This is known as recycling" (Susungi; 1993: 108). "Lenders discovered a new method for syndicating loans which allowed commercial banks to make sovereign loans, which carried no risk of bankruptcy" (Dent & Peters; 1999: 5). These sovereign loans had extremely low interest rates, and the developing world jumped at the opportunity with the intention that they would be able to repay the loans in a few years. In their haste to rid themselves of the capital accumulation, donor countries failed to consider the implications of their actions. As a result, only a passing thought was given to whether

[11] See also: Balogh (1974)

the recipient countries could actually repay the loans. As a result of this imprudent lending and borrowing, during the 20-year period between 1970 and 1989 the external debt of Developing countries grew from $68.4 billion to $1283 billion, an increase of 1846 %[13].

By 1982-83, the credit flows from all sources into developing countries were fast drying up (Dent & Peters; 1999: 6). The low interest rates of the late 1970s climbed steeply, exacerbated by the neo-liberal administrations of Reagan in the United States and Thatcher in the United Kingdom who encouraged the rising interest rates as an anti-inflationary policy. Developing countries found that loans that were serviceable in the past were becoming increasingly difficult to pay. As a result, debt-servicing costs began to build up as more and more developing countries defaulted on their interest payments. Reactionary measures by the IMF and the World Bank, as well as creditor governments included stringent reform policies, which included "pressure to devaluate the currency; tighten budgetary controls; reduce public domestic borrowing; freeze wages and remove subsidies" (Dent & Peters; 1999: 6). Another pivotal factor is the fact that the Keynesian approach to the global economy was being rapidly replaced by the neo-liberal construct of the free market. Because of this, the terms of international trade began to shift against debtor countries. Dent & Peters (1999: 6) document that "within a short time some 50 governments received forceful advice to shift their production, primarily agricultural, to export crops. The number of crops suitable for this purpose was small, no more than a dozen. Not surprisingly, as this additional produce came onto the world market, gluts occurred, with catastrophic effect on prices". The total effect of these measures was to free funds for debt servicing, so that "between 1982 and 1990 developing countries' debt service alone totalled $1.345 billion, the equivalent of six Marshall Plans" (Johnson; 2001: 2). Removing funds from social support to service debt burdens proved to exacerbate the social and political ills that were lurking beneath the surface of nearly all developing nations. As a result, the poorest of the poor were hit the hardest.

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[12] See also: Pfefferman (1991)

2.3 Who is to Blame?

To find a willing patsy on which to lay the blame for developing world indebtedness is indeed an impossible task. Developing world advocates such as George Abbott[14] place culpability on the Western institutions for allowing the lending spree of the late 1970s to happen, and for enforcing neo-liberal structural adjustment programmes upon already struggling nations. Patrons of the West point the finger back at the developing world emphasizing the lack of democratic governance and free market economies as well as the prevalence of corruption. In truth there are both internal and external forces at work in both the developing world and the international system. Abbott (1993: 30-33) argues that developing countries accepted the loans for a variety of reasons, the main one stemming from the expectation that debtor countries would grow out of their debt burdens. This of course, did not materialise. Abbott (1999: 31) claims "although a substantial proportion of [developing world] debt are development-related, ability to service them depends not only on growth and development in the debtor countries but also on a healthy and expanding world economy." With the global economy in a slump in the 1980s, growth and development was retarded in developing countries, and the debt burden became to weigh more heavily on their shoulders. Abbott (1993: 31) mentions the existence of an "inordinate number of prestige projects (the so-called 'white elephants')". On paper, these projects seemed to be development related and were thus funded by Western lenders. In reality however, the money lent for these projects was supporting "ill-conceived and over-ambitious development plans" (Abbott; 1993: 31). Many of the funds were also misappropriated and absorbed by greedy and corrupt leaders. Whilst developing nations may be held accountable for their corrupt practices, Western lenders did not ask many questions regarding the purpose of their funds, as their main priority was to find willing borrowers to absorb the excess capital in the market due to the second oil shock. Abbott (1993: 31) also argues that one cannot claim that indebted countries brought their debt burdens upon themselves. In his opinion, this notion is clearly dispelled by the fact that developing nations have gone

[13] See: www.unu.edu/unupress/unupbooks/uu32me/uu32me07.htm

to "great lengths to meet debt service payments, often sacrificing urgent domestic development needs in the process."

There are numerous external forces that contributed to the crippling debt burden of the developing world, which in 1997 was estimated to stand at US$2.171 billion (Dent & Peters; 1999: 39). Abbott cites the "rise in protectionism in the developed countries, particularly the so-called new protectionism, and the proliferation of non-tariff measures have hurt [many developing countries] in terms of market access, the development of new products and the processing of raw materials domestically" (Abbott; 1993: 31). Furthermore, converting the denomination of third world debts into dollars added a further US$1 to US$2 billion to debt service payments, due to the weakness of the dollar during most of the 1980s (Abbott; 1993: 31). Abbott drives home the fact that most nations of the developing world exist on the "periphery of the world's economic and financial system. They account for a small proportion of world trade and offer limited investment opportunities for foreign private capital" (Abbott; 1993: 33).

Abbott (1993: 32) does not however purport to lay the blame solely on the West, and has a nine-point list of the most salient internal forces that contributed to the indebted countries debt problems:

1. unrealistic development plans with outsized and unproductive projects;
2. a top-heavy and poorly trained bureaucracy;
3. bloated public expenditure, including funding of parastatals and other state-owned enterprises;
4. weak or non-existent organisational and institutional infrastructure;
5. acute shortage of managerial, administrative personnel and skills;
6. inefficient monetary, fiscal and exchange rate policies;
7. insufficient domestic savings and low investment;
8. lack of political will to take politically unpalatable decisions;
9. no effective debt management strategy.

The crux of Abbott's argument is that a combination of internal and external forces brought on the debt crisis. He goes on to state that developing world debt is "regarded as long-term and developmental in nature…and are not amenable to a 'quick-fix' solution, but need to be related to the debtor's long term development profile and ability to pay" (Abbott; 1993: 32).

A parallel argument is offered by Sutcliffe (1986). Concerned with the causes of the debt crisis in Africa, he argues that the African crisis "represents the continuation of a complex process of polarization trends" (Geda; 2001: 5), which began with the colonisation of most of the continent and culminated in the ensuing rich-poor divide. For Sutcliffe, the African debt crisis is best understood in terms of the "combined result of long-term secular effects of imperialism suddenly aggravated by the impact of the world capitalist crisis. Therefore, Africa's problems are best understood as resulting from long-term underdevelopment, and short-term vulnerability" (Geda; 2001: 5). Sutcliffe does not subscribe to the belief that African countries are a "temporary deviation from the 'norm', and that these countries may return to that norm given a particular adjustment measure" (Geda; 2001: 5).

The converse argument posits that the cause of the debt crisis is not ascribed to the harsh economic system, but rather perceived as a direct result of poor governance and a non-adherence to the development policies specified by amongst others the World Bank and the IMF. In his paper "Debt Issues in Africa: Thinking Beyond the HIPC Initiative to Solving Structural Problems" (2001) Alemayehu Geda spells out the World Bank's opinions on why the developing world spiralled into debt. Drawing from the World Bank's *Agenda for Action* (1981), Geda brings our attention to the fact that the Bank remains convinced that "in spite of external shocks, associated particularly with a rise in oil prices in the periods 1973-74 and 1978-80 and a decline in world demand for primary commodities, the balance of payments problem experienced by most [developing] nations since the 1970s cannot generally be attributed to deterioration in terms of trade (Geda; 2001: 2). The Bank goes on to say that "the terms of trade for most developing nations (especially those in Africa) have, in fact, been either favourable or neutral" (Geda; 2001: 2).

According to the World Bank, as articulated in Geda (2001), the main cause of the balance of payments problem then had been a decline in the volume of exports. This was attributed to three factors. Firstly, structural changes in the composition of world trade (trade in commodities growing slower that that of manufacturers). "Secondly, drought and civil strife in many African countries affected the continent's supply capacity. Thirdly, trade restrictions and agricultural subsidy policies of industrial countries represented a barrier to African trade" (Geda; 2001: 2). Bringing its focus to Africa, the Bank posited three main reasons for the failure of the continent's export sector. "Firstly, government policy tended to be biased against agricultural and export production. Secondly, increased consumption associated with rapid population growth placed a burden on economic resources, which might otherwise have been used by the export sector. And thirdly, inflexibilities in African commodities were seen as representing an obstacle to diversification" (Geda; 2001: 2). In his paper, Geda (2001: 2-3) quotes the World Bank as maintaining as recently as 1994 that "orthodox macroeconomic management represents the road to economic recovery in Africa [and the developing world] and, hence, that more adjustment, not less, is required".

Bisecting the two arguments is the United Nations' Economic Commission for Africa (ECA), which is concerned with the causes of the debt crisis in Africa. Geda (2001: 3) quotes the ECA as preferring to explain Africa's problems in terms of deficiencies in basic economic and social infrastructure, research capability, technological know-how and human resource development, compounded by problems of socio-political organisation. The ECA sees "inflation, balance of payments deficit, a rising debt burden and instability of exports as resulting from a lack of structural transformation, as well as excessive outward dependence" (Geda; 2001: 3). All of these factors have conspired to perpetuate the external dependence of the continent, the result of which is that Africa is vulnerable to exogenous shocks (Geda; 2001: 3). In stark contrast to the World Banks prescription for developing world debt, the ECA implies that the implementation of structural adjustment policies is "not only the wrong diagnosis but also the wrong treatment" (Geda; 2001: 3). Drawing on the Lagos Plan of Action of 1980, which was based on the premise that Africa's development could not be merely a passive result of the world systems or evolution of the European Economic Community, to which the continent's states had been bound by the association named after the agreements of Yaoundé and Lomé, the United Nations advocates a new, self-reliant development strategy for Africa[15].

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[15] *For a critical discussion on the Lagos Plan of Action see:* Africa: from the Lagos Plan (1980) to the World Bank plan and the United Nations Conference (1986) http://www.unu.edu/unupress/unupbooks/uu32me/uu32me07.htm

Earlier in this chapter it was established that the total external debt of the developing world in 1997 was estimated to be US$2.171 billion (Dent and Peters; 1999: 36). Table 1 illustrates the extent of the debt burden today by comparing the increase in debt over the decade 1985-1996.

Table 1

Growth of total debt owed by various categories of countries

Area	1985 Debt (US$ Bn)	1996 Debt (US$ Bn)	Increase (US$ Bn)	Increase %
Sub-Saharan Africa	99	227	128	129
Latin America and Caribbean	388	656	268	69
East Asia and the Pacific	166	477	311	187
Europe and Central Asia	158	370	212	134
North Africa & Middle East	110	212	102	93
South Asia	68	152	84	123
All developing countries	990	2.095	1.105	112

Source: Dent &Peters (1999)

From Table 1, one can clearly appreciate how developing world debt has increased in the past decade. Most regions exhibit a debt increase of well over 100% between 1985 and 1996. These increases in external debt can be attributed to a number of factors including poor economic growth in developing countries, as well as shallow debt relief efforts. In the following section, early debt relief mechanisms are compared to current debt relief efforts to illustrate the evolution of debt relief.

2.4 Addressing the Debt Problem: Past Approaches and Modern Debt Relief Efforts

'Treatment' of the debt problem is an exceptionally contemporary concept. As late as the 1980s, both creditors and debtors believed that the developing world would outgrow their underdevelopment[16] provided they implement the neo-liberal adjustment policies prescribed to them (trade liberalisation, decreased government intervention in markets, less social spending etc). When the projected world economic growth did not become a reality, the West imposed stringent reform policies on the developing South in the vain hope that drawing money away from social spending would free up funds for debt servicing. It soon became evident however, that in spite of the structural adjustment policies, many of the indebted nations, particularly those in Africa, were still unable to pay the interest on their loans, not to mention the principal amounts. Furthermore, it appeared that the neo-liberal reform policies were exacerbating poverty and plunging indebted countries further into recession. It finally became apparent that both the developed and developing worlds needed to become more proactive regarding the rescheduling of debt payments. They had to go one step further and implement debt relief strategies. In this section, we shall examine the commencement of debt relief efforts that culminated in the global impetus to eradicate unsustainable debt burdens[17].

During the past twenty years or so, the attitude and approach of creditor nations to the problem of international indebtedness has done an about-turn. During the 1980s, the conventional approach to indebtedness was to in effect hold debtor countries responsible for their debt payments. If a developing country defaulted on a payment, it was assumed to have mismanaged its economic and financial affairs (Abbott: 1993: 63). "This approach not only blamed the debtor for getting into debt, it also put the responsibility firmly on it for getting out of debt" (Abbott; 1993: 63).

Despite the fact that countries were defaulting on their loan repayments, creditor nations did not consider debt relief efforts as we know them today. They doggedly

[16] See: Sachs (1989)

retained the belief that structural adjustment would serve to drag indebted nations from their mire. Abbott (1993: 63) emphasises several features of the conventional approach of early debt relief operations. "Firstly, relief efforts were essentially *ad hoc* in nature, with relief being regarded as a last resort. Secondly, relief was only given in exceptional cases, and limited to the minimum amount necessary to restore the debtor's credit rating, enabling it to resume payments as soon as possible. Third, losses to the creditor were kept to the absolute minimum necessary to safeguard its interest. Fourthly, the cost of postponement of amortisation and interest payment was to be borne by additional interest charged at commercial rates. Finally, the amount of disruption to the international monetary and financial system should be minimal". The rationale behind dealing with debts in this way was that difficulties experienced by indebted countries were seen as an imposition to the world financial system. For this reason, countries that stepped out of line were quickly reproached, so that the system could continue to run as smoothly as before.

Debt consolidation efforts during the 1980s and well into the 1990s were essentially 'short-leash' operations (Abbott; 1993: 64). Short-leash operations were "clearly intended to serve and protect the interests of the creditors, namely, to ensure that they got paid and that normal market conditions were restored as quickly as possible" (Abbott; 1993: 64). They also served as a disincentive to debtor countries from allowing themselves to fall into the same situation in the future. At this stage, debt relief was economically centred, with creditors implementing short-term methods in order to extract the money owed them. Stringent reform policies were imposed upon debtor nations in the hope that their economies would become stronger and their credit ratings would rise thereby attracting more investment. If one views the aims of debt relief measures from this acute angle, it can be argued that the short-leash operations were successful, as in most cases creditors bullishly extracted the money owed them. However, if examined from a more obtuse angle to include the effects of the short-leash operations on indebted countries, one is able to recognise the shortsightedness of this approach. The recurring slide into unsustainable debt burdens experienced by most indebted countries was far more than an economic issue to be solved with short-term adjustment policies. Many of the problems in these countries

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[17] For a documentation of all bilateral relief initiatives, see: Abbott (1993) Chapter 3

were so deep rooted that years of gradual internal reform was required. The rights and needs of the developing world were however, placed well below the creditor nations' lust for wealth. "These short-leash exercises involved heavy costs in terms of uncertainty, pre-emption of scarce management and professional skills, and the inability of the debtor to formulate long-term plans and policies" (Abbott; 1993: 64).

Conventionally, the main methods and techniques of debt consolidation are: *(a)* rescheduling, *(b)* refinancing, *(c)* moratorium, and *(d)* cancellation (Abbott; 1993: 64-66).

(a) Rescheduling

This is the most widely used technique whereby the existing debt repayment programme is either amended or replaced by a new schedule extending the date of repayment or granting a grace period. Rescheduling is intended to make debt levels more manageable, not to reduce the amount owed, in fact, debtors are likely to end up owing more due to hefty rescheduling costs. This is unlikely to be a lasting solution if the debtor's problems are chronic and deep-seated.

(b) Refinancing

This method is used to give the debtor a new loan in order to meet existing debt service obligations. This effectively gives more money to pay back money already borrowed. Debtor countries are also expected to pay back the refinancing loan. Refinancing is suitable for long-term structural debts.

(c) Moratorium

According to this approach, debtors are able to suspend service payments on all or part of their external obligations, either temporarily or over a longer period, depending on prevailing factors and conditions. This method is not a solution, but rather a first step in an overall stabilisation programme, and is thus commonly used in times of crisis. A crisis may constitute war, flooding, drought, bankruptcy, military coup, and political upheaval etc. This approach provides the opportunity for the debtor and its creditors to undertake an inventory of the former's external position. Requesting a moratorium is effectively an admission that the problem cannot be solved through rescheduling or refinancing.

(d) Cancellation

This is the final stage of debt consolidation. Debts are usually forgiven between governments, and thus are unilateral executions. In many cases however, creditors must act multilaterally in order to ensure that losses are equitably distributed, and that relief given by one creditor is not used to pay the debts owed to another. This approach was used very infrequently and reluctantly in the past, and was only considered as a last resort when all else has failed, when the debtor country was on the verge of collapse, or when a fresh start is considered desirable in the interests of international relations.

Although there was a variety of measures and techniques for dealing with problem debtors, consolidation was confined to rescheduling and refinancing. Moratoria and debt cancellation were hardly considered except in severe cases (Abbott; 1993: 67).

Debt relief efforts as we know them today grew from these early consolidation efforts. Thus far, this chapter has traced the origin of the debt crisis in developing nations, explored the divergent views on the internal and external causes of the debt crisis, and delved into the nature of rudimentary debt consolidation efforts prescribed to indebted countries over the past five decades. In the next section, modern day debt relief efforts shall be examined.

2.5 Debt Relief for Economics vs. Debt Relief for People

As country after country in the developing world defaulted on their debt repayments, failed to stabilise their economies, or reap the intended benefits of the structural adjustment programmes prescribed to them, creditor nations began to realise that economics alone could not cure the debt problem. The nature of the problems of indebted nations was more broad-based than simply stagnant economies. Poverty, famine, illiteracy, infant mortality, unemployment, corruption and under-development were just some of the issues facing indebted nations. How could these countries repay loans when their people were starving? How could the governments of indebted nations cut public spending to service debt repayments at the expense of vaccinating children against diseases long since eradicated in Europe and America? More importantly, how could creditor nations continue to impose structural adjustment policies in the knowledge that they caused more short-term damage than long-term good?

As early as the 1960s, scholars and economists attempted to bring the world's attention to the fact that indebted countries' debt burdens would not be relieved or solved through debt rescheduling or structural reform policies. The 'Pearson Report' stated: "The primary objective of debt refinancing or consolidation has been to 'bail out' the borrower by providing strictly short-run accommodation. The emphasis has usually been placed on speedy resumption of debt service payments rather than on re-establishing financial framework for orderly growth" (Abbott; 1993: 68). The report called for a new and more realistic approach, which avoided the need for repeated rescheduling. It also advocated that donor countries consider debt relief a legitimate form of aid and permit the use of new loans to refinance debt payments in order to reduce the need for full-scale debt negotiations (Abbott; 1993: 68).

The United Nation's Commission for Trade and Development (UNCTAD) joined the growing chorus in favour of a new approach to the debt issue when in May 1976, UNCTAD IV "pledged themselves to quick and constructive consideration, within a multilateral framework, of individual requests to provide relief to developing countries suffering from debt service difficulties, in particular, the least developed and most seriously affected developing countries" (Abbott; 1993: 69). Many reports and studies written on the debt issue came to four similar conclusions. These are documented in Abbott (1993: 69): "(a) the creditor countries were faced with a completely different type of debt problem for which the conventional approach was inadequate and inappropriate; (b) the debts of the developing countries were not only development-related, but comprised of various types of debts carrying different terms and conditions; (c) given the highly differentiated nature of the problem and the fact that the debtors were not a homogenous group of countries, it was appropriate to consider cancellation a legitimate form of relief, particularly in respect of poorer countries; (d) the creditor nations bore some responsibility for the creation of the problem…they should therefore, adopt a more flexible and realistic approach in dealing with the problem" This final realisation was perhaps the most important. In the past, creditor nations had placed the responsibility solely on those governments who had borrowed money in the first place. With the acknowledgement that their hands were not as untainted as they had asserted, creditor nations shouldered a portion of the responsibility for the debt predicament. Once developed nations indicated that they were partially to blame, the shift away from economic-centred action towards people-centred action began to pick up speed as new commitments to address poverty in the developing world proliferated.

Bob Geldoff's 'Band Aid' campaign during Christmas of 1986 brought the world's attention to the horrifying famine in Ethiopia. The heart-rending song, "Do they know its Christmas time at all?" spread the message throughout the developed world that hardship, hunger and misery existed in this world the likes of which were unimaginable. Africa was portrayed as a deluge of poverty and hopelessness, and the developed world's humanitarian conscience was sparked. The plight of the developing world was not a new phenomenon throughout the governments and institutions of the first world. However, Band Aid which subsequently became the immensely influential 'Live Aid', combined with America's 'Feed the World' initiative replete with celebrities and sold-out pop concerts, began to alert the civil society of the developed world that governments were not doing enough to stop the suffering and senseless starvation of millions not just on the African continent, but all over the world. Civil rights groups found that they were receiving increased support from civil society, and could subsequently demand more action from governments of industrialised nations. The challenge was how to marry the conscience of civil society with bureaucratic red tape.

Whilst in the past, the focus had been deftly trained on economic progress to emancipate indebted countries from their debt burdens, the collective lobbying from civil rights groups combined with a consciousness revolution alerted donor countries to the fact that they needed to be more accountable for their actions. People wanted action, not empty promises. This shift towards saviour politics was enunciated through a number of international initiatives. Among these was the Lawson Initiative developed by Nigel Lawson, the British Chancellor of the Exchequer, in April 1987 (Abbott; 1993: 73). The Lawson Initiative was addressed specifically to Sub-Saharan Africa, and articulated a number of breakthroughs regarding debt relief. The Initiative stated that: (a) there was no way [indebted countries in Sub-Saharan Africa] could repay their debts; (b) [these countries] could not return to economic viability by their own efforts; (c) they would have to depend on concessional aid inflows for some considerable time; (d) the creditor countries had a moral and economic responsibility to help these countries which were some of the poorest in the world; (e) sub-Saharan African countries themselves needed to restructure their economies (Abbott; 1993: 73). The Lawson initiative was pursued at the Venice Summit of the G-7 Nations in June 1987 (Abbott; 1993: 74), and subsequently paved the way for the major debt initiative agreed upon at the Toronto Economic Summit in June 1988. At this summit, creditor nations and bilateral lenders such as the Paris Club agreed upon some groundbreaking measures to combat debt. Among these were: "longer repayment periods at commercial rates, partial write-offs of debt service obligations and concessional interest rates" (Abbott; 1993: 75).

With issues of debt relief and poverty reduction pulling at the moral heartstrings of civil society, governments in industrialised nations could hardly turn a blind eye, nor did they wish to. It had become apparent that many of the debts owed them were simply unpayable, and to continue to extract money whist obliging poverty stricken nations to adhere to reform policies was plunging the poor deeper into despair. Outraged NGOs and civil rights organisations verbally desecrated the Bretton Woods institutions for not cancelling *all* foreign debt in countries that could not pay. This is a war still waged today. The horrifying statistics of the 41 poorest countries in the world paint a grim picture: "The assets of the wealthiest three individuals in the world now exceed the combined GNP of the forty-three least developed countries. Total income of the bottom 41 per cent of the world's people is less than that of the 200 wealthiest individuals. 1.2 billion people live on incomes below the equivalent of US$1 a day (see Tables 2 & 3). 1.3 billion people lack access to safe drinking water, nearly 1 billion are illiterate, and some 840 million people are chronically hungry and malnourished. 80% of the world's population lives on about 20% of the world's total GNP, whilst the other 20% of the world's population lives on 80% of the world's total GNP. These figures suggest that about 4300 million people live on an annual average per capita income of around US$750, a little over US$2 a day (Schulz; 2001: 95). Schulz (2001: 94, 106) goes on to say that this geography of hunger expresses itself in radically shortened life spans, political and economic marginalisation, and an existence of spiritual and material deprivation. These conditions combined with the aid regime have reduced entire regions, particularly in Sub-Saharan Africa, to a 'political economy of begging'.

Table 2

Number of people living on less than $1 per day, selected years 1987-1998[18] (millions)

Region	*1987*	*1990*	*1998*
East Asia and the Pacific	417.5	452.4	267.1
(excluding China)	(114.1)	(92.0)	(53.7)
Eastern Europe and Central Asia	1.1	7.1	17.6
Latin America and the Caribbean	63.7	73.8	60.7
Middle East and North Africa	9.3	5.7	6.0
South Asia	474.4	495.1	521.8
Sub-Saharan Africa	217.2	242.3	301.6
Total	**1183.2**	**1276.4**	**1174.9**
Total, excluding China	**879.8**	**915.9**	**916.4**

Source: World Bank, *Global Economic Prospects and the Developing Countries 2001*

[18] See Chapter Four for the link between poverty, debt and the Millennium Development Goals.

Table 3

Percentage of people living below the poverty line[19], selected years, 1987-1998

Region	*1987*	*1990*	*1998*
East Asia and the Pacific	26.6	27.6	14.7
(excluding China)	(23.9)	(18.5)	(9.4)
Eastern Europe and Central Asia	0.2	1.6	3.7
Latin America and the Caribbean	15.3	16.8	12.1
Middle East and North Africa	4.3	2.4	2.1
South Asia	44.9	44.0	40.0
Sub-Saharan Africa	46.6	47.7	48.1
Total	**28.3**	**29.0**	**23.4**
Total, excluding China	**28.5**	**28.1**	**25.6**

Source: World Bank, *Global Economic Prospects and the Developing Countries 2001*

Table four details the correlation between the amount of external debt owed by HIPCs and the percentage of the population living below the poverty line. It also indicates that the greater the percentage of population living below the poverty line, the lower the country's ranking on the United Nations Human Development Indicator[20]. By examining the table below, it becomes evident that the greater the percentage of the population living in poverty, the poorer they are ranked on the HDI index. It is also relevant to notice that in many HIPCs, the population living in poverty hovers close to 50%, and in countries such as Liberia and Zambia, poverty levels soar to 80%. Not only do these countries have huge poverty levels, but they also bear the simultaneous burden of high levels of external debt.

[19] In attempting to address poverty, the World Bank requires a criterion for deciding if an individual or household is poor. The Bank does this in economic terms by measuring a person's income and establishing a 'poverty line', which represents an income level below which a person is held to be in extreme poverty. A single poverty line is used for the whole world, so that those in extreme poverty are those whose income is less than US$1 per day. It is then possible to measure the proportion of people below the poverty line in regions around the world (Allen & Thomas; 2000: 10-11).

[20] The UN Human Development Indicator assigns ranking to countries according to their level of development. Determinants include population growth, economic growth, literacy rates, external debt, social spending, mortality rate, poverty levels etc. Countries are assigned a ranking from 1-173, with 1 being the highest level of development and 173 being the lowest.

Table 4

Correlations between external debt, population in poverty, and position on HDI index

Country	External debt burden (US$billions)	Population in poverty (%)	Position on HDI
Angola	10.8	N/A	161
Benin	1.6	37.2	158
Bolivia	6.6	70	114
Burkina Faso	1.3	N/A	169
Burundi	1.12	36.2	171
Cameroon	10.9	48	135
Central African Rep.	0.79	N/A	165
Chad	1	64	166
Comoros	0.197	N/A	137
Congo	5	N/A	136
Cote d'Ivoire	13.9	N/A	156
Dem. Rep. Congo	13	N/A	155
Ethiopia	10	N/A	168
Gambia	0.440	N/A	160
Ghana	7	31.4	129
Guinea	3.6	40	159
Guinea-Bissau	0.964	50	167
Guyana	1.1	N/A	103
Honduras	5.4	53	116
Kenya	6.2	42	134
Lao PDR	N/A	N/A	143
Liberia	3	80	N/A
Madagascar	4.4	70	147
Malawi	2.9	54	163
Mali	3	N/A	164
Mauritania	2.1	50	152
Mozambique	1.4	70	170
Myanmar	6	23	127
Nicaragua	6.4	50	118
Niger	1.3	63	172
Rwanda	1.3	70	162
Sao Tome & Principe	0.268	N/A	119
Senegal	4.1	N/A	154
Sierra Leone	1.28	68	173
Somalia	2.6	N/A	N/A
Sudan	24.9	N/A	139
Tanzania	6.8	51.1	151
Togo	1.5	32	141
Uganda	3.6	55	150
Vietnam	13.2	37	109
Zambia	6.5	86	153

Source: UN Human Development Report 2002; CIA Country Profiles

Despite the heightened awareness of the need for development assistance, aid from the developed world in the form of debt relief, official development assistance (ODA), trade concessions etc all come at a price, and whilst structural adjustment policies are not as resolutely enforced, terms and conditions do apply. One of these conditions is a commitment to economic reform advocated by the neo-liberal free market system. The World Bank and the IMF are aware of the human side of the debt issue. They are however, economic institutions, and thus place a high premium on economic performance to help purge indebted nations of not just their debt burdens, but also of their poverty status. Their approach to debt relief can be classified as "debt relief for economics" (Eurodad; 1999[21]) (see fig.1). NGOs advocate "debt relief for the people" (Eurodad; 1999[22]), which maintains that indebted countries are unable to pay any debt service without severely disabling their ability to achieve sustainable economic and human development (see fig.1).

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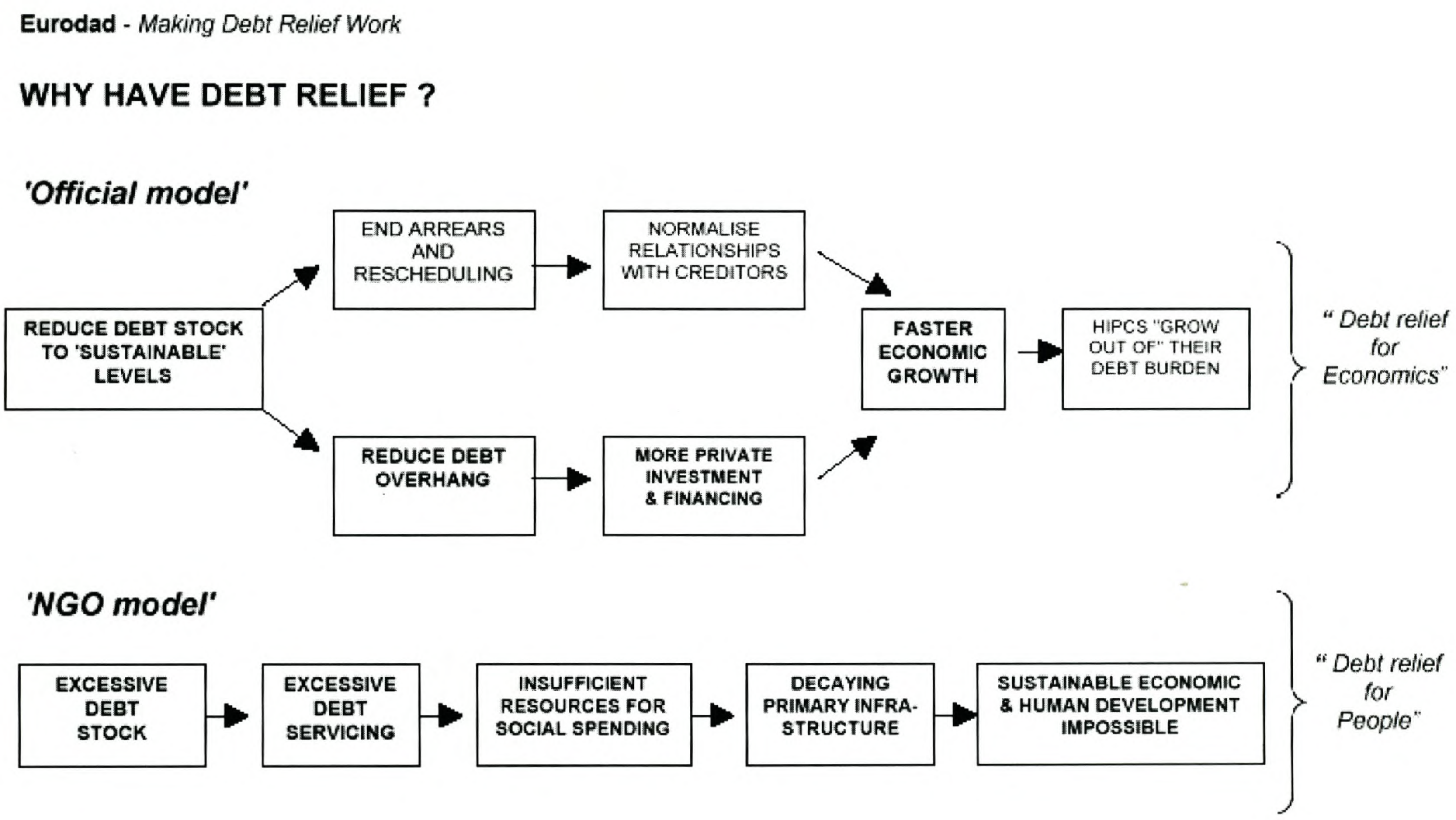
[21] see: Making Debt Relief Work: Mechanisms for Aligning Debt Relief with Human Development August 2 1999. www.oneworld.org/eurodad
[22] See: Making Debt Relief Work: Mechanisms for Aligning Debt Relief with Human Development August 2 1999. www.oneworld.org/eurodad

Figure 1



Source: www.oneworld.org/eurodad

2.6 Where To From Here?

1997 World Bank estimates place developing world debt at approximately US$2.171 billion (Dent & Peters; 1999: 39). Of this amount, Sub-Saharan Africa alone owes roughly US$206 billion (Structural Adjustment Review; 2002)[23]. The United Nations New Agenda for Development of Africa (UN-NADAF), and the New Partnership for Africa's Development (NEPAD) envisages an average growth rate of at least 6% per annum if the continent is to achieve sustainable economic growth and equitable development, increase income and eradicate poverty through a mutuality of commitments and accountability, both from the African countries and the international community (Structural Adjustment Review; 2002)[24]. The average growth in the region is however, a miserable 2.7%[25]. The Economic Commission for Africa (ECA) asserts that African regional growth rates must be the following: Northern and Southern Africa, 5-6%; Central Africa, 6-7%; West and East Africa, 7-8%; culminating in a 6.8% required growth rate for all of Africa (Structural Adjustment Review; 2002)[26]. These growth rates must be maintained until 2015 when it is envisioned the developing world will attain the Millennium Development Goals to be discussed in Chapter Four.

As debt relief has made its way to the forefront of modern development thinking, there has been a proliferation of attempts by NGOs, and civil society around the world to convince the governments of the developed world to implement debt relief initiatives. Non-governmental organisations such as Oxfam, Christian Aid and the Jubilee 2000 Initiative have lobbied, demonstrated and campaigned for comprehensive debt relief for the indebted world (Sellers; 2001: 64). In 1996, the World Bank and the IMF finally bowed to the pressure from NGOs to create a debt relief initiative that would release indebted countries from their debt burden, and also direct funds to these countries for the purpose of development. The new initiative was called the Heavily Indebted Poor Countries Initiative (HIPC).

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[23] See: African Poverty Reduction Progress Impossible? in Debt, Structural Adjustment and Jubilee: Structural Adjustment Review (2002)
[24] See: African Poverty Reduction Progress Impossible? in Debt, Structural Adjustment and Jubilee: Structural Adjustment Review (2002)
[25] See Chapter four, table 8 for required vs. actual growth rates
[26] See: African Poverty Reduction Progress Impossible? in Debt, Structural Adjustment and Jubilee: Structural Adjustment Review (2002)

2.7 Conclusion

The world has entered an era of development with developing nations straining to reach satisfactory standards of industrialisation. As Sachs[27] (1992) eloquently reflected: "Like a towering lighthouse guiding sailors towards the coast, 'development' stood as *the* idea which oriented emerging nations in their journey through post-war history. No matter whether democracies or dictatorships, the countries of the South proclaimed development as their primary aspiration." In this relentless pursuit for development, the developing nations have compromised themselves into a quagmire of increased poverty, underdevelopment and unsustainable debt burdens. Neo-liberal policy prescriptions imposed by the developed world have done little but exacerbate the degree of misery in these indebted countries. The industrialised North, at the behest of civil society and the developing world, relented to consider different avenues of action regarding third world debt. In 1949, US President Harry Truman declared that, "We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. The old imperialism – exploitation for no profit – has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealing" (Allen & Thomas; 2000: 5). Fifty-one years later, is it possible that the cure for underdevelopment and indebtedness has been found?

[27] See: Allen, T. & Thomas, A. (eds) (2000) Poverty And Development Into The 21st Century Chapter 1. Oxford University Press: United Kingdom

Chapter Three: The Heavily Indebted Poor Countries Initiative

3.1 Introduction

"A central structural dilemma of our times is the emergence of a group of weak states and economies that have not been able to benefit as easily or quickly from economic reform and democratisation as elsewhere in the world. This dilemma poses major difficulties for the functioning and evolution of the international political economy and for international peace and conflict" (Callaghy; 2001: 5). This structural dilemma noted by Callaghy is perhaps the root of poverty and underdevelopment in the developing world. Modern day capitalism is analogous to Darwin's theory of survival of the fittest. It has long been argued that the developing world is ill suited to competing in the international economy it had no say in shaping, and for this reason, developing economies fall by the wayside as they are unable to meet the demands of international capitalism.

The cavernous gap between rich and poor, and the resulting spiral into debt has been considered in the previous chapter. Chapter two also explored the measured transformation of the international debt regime that was brought about by the culmination of rapid economic, political and social deterioration in the developing world, and efforts by NGOs to spur the developed world into action. Chapter three is an academic exploration of the HIPC Initiative, which was implemented in an attempt to curb the rapid accumulation of debt in the developing world. The basic ground rules of the initiative shall be laid out, as well as how it operates. The chapter concludes with an observation of the impact the HIPC Initiative has had on conventional debt relief.

3.2 What is the Heavily Indebted Poor Countries Initiative?

The first phase of the HIPC Initiative (HIPC I) was launched in September 1996 by the IMF and World Bank at the behest of pressure from non-governmental organisations, and other groups to address the astounding poverty experienced in much of the developing world. The HIPC Initiative is a "comprehensive approach to debt reduction for poor countries that requires the participation of all creditors" (IMF

Factsheet; 2002). Compared to decades of debt rescheduling, the HIPC Initiative was a major breakthrough in two ways. First, it was intended to be a "comprehensive solution to the HIPC's unsustainable debt, which would allow HIPC's to exit permanently from repeated debt rescheduling by reducing their external debt stocks to sustainable levels. Second, given that more and more external debt owed by the HIPC's was multilateral debt, the HIPC initiative also included a reduction of multilateral debt. This was a particularly difficult step for the international community to take" (Gunter; 2002: 6). The main objective of the HIPC Initiative is to provide special assistance for those countries that face unmanageable debt burdens, so that they may exit from the vicious cycle of crippling debt and the resulting underdevelopment. A country is considered to face an unmanageable debt burden when traditional debt-relief mechanisms of rescheduling and debt reduction are not sufficient to attain sustainable external debt levels within a reasonable period of time and without additional external support (IMF Factsheet; 2002). Central to this objective is the country's continued effort towards macroeconomic adjustment and structural and social policy reforms which are encouraged by the IMF and the World Bank (IMF Factsheet; 2002). Under the original framework of HIPC I, debt relief would be provided to each country after reaching its completion point. The amount of debt relief given to the 26 eligible countries was approximately totalled at US$20 billion in nominal terms and about US$13 billion in NPV terms (Box 1) (Gunter; 2002: 6). This amount seems paltry compared to the overall outstanding debt of these countries, which amounted to more than US$200 billion at the time HIPC I was adopted (Gunter; 2002:6). Protests were instigated on the grounds that HIPC I was not contributing enough assistance for HIPC's to attain a sustainable debt burden.

BOX 1

Net present value of debt
The net present value (NPV) of debt measures the actual financial burden on a country of various kinds of debt and allows a more meaningful comparison of debt burdens across low-income countries than the face value of debt. This is because the face value of the external debt stock does not reflect the fact that low-income countries contract a significant part of the external debt on concessional terms (i.e. with an interest rate below the prevailing market rate and often long repayment periods). The NPV of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant element.

Source: IMF/World Bank (2001: 12)

In light of these protests, the IMF and World Bank formally agreed to enhance the framework. The second phase of the HIPC Initiative known as the Enhanced HIPC Initiative or HIPC II was introduced after the G7 summit in Cologne in 1999. There were many encouraging improvements in the Enhanced HIPC Initiative (Table 5). The objectives of HIPC II were to provide "broader, deeper, and faster debt relief to qualifying countries" (Gunter; 2002: 6)[28]. This was to be done in three[29] ways that represented a major departure from HIPC I. Firstly, through a lowering of the ratios considered to provide debt sustainability; secondly, through replacing the fixed three year period between decision and completion points by the concept of a floating completion point; and thirdly, through the provision of interim relief from some creditors between the decision point and the completion point. The Enhanced HIPC Initiative also lowered the qualifying thresholds for eligibility as follows (IMF/World Bank; 2001: 2-3)[30]:

- The debt-to-exports[31] target is now 150% (reduced from 200-250% under HIPC I) for countries qualifying under the exports window
- The debt-to-fiscal revenue[32] target is now 250% (reduced from 280% under HIPC I) for countries qualifying under the fiscal window, with the exports-to-GDP ratio at

[28] See also: IMF/World Bank (2001); Callaghy (2001); Thomas (2001); Eurodad (1999_b)
[29] See: Gunter (2002: 6); IMF/World Bank (2001)
[30] See also: Regional Economic Review: Southern African Economic Summit (2001)
[31] Debt-to-exports ratio is the amount of debt a country owes in comparison to that countries total export earnings. Under the Enhanced HIPC Initiative, if a country's debt is 150% or more than its export revenue, it qualifies for assistance.

30% (reduced from 40%); and the fiscal revenue-to-GDP ratio at 15% (reduced from 20%).

Whilst HIPC I was aimed primarily at reducing debt, HIPC II intended to bring poverty reduction into the equation. Creditor nations and institutions realised that to reduce a HIPC's debt burden through monetary assistance did not comprehensively ensure that the country would escape the debt trap. It became apparent that in order for HIPC's to break the cycle of poverty and debt, both elements had to be addressed. It is for this reason that HIPC II is geared not only towards debt relief, but also towards poverty reduction with recipient countries implementing an involved poverty reduction strategy which "puts the freed-up funds to work for the poor" (IMF/World Bank; 2001: 2). According to the IMF and World Bank (2001: 2), this innovative approach delivers debt relief within a transparent framework that invites the governments of HIPC's – in consultation with civil society, including the poor themselves – to take the lead in formulating comprehensive national strategies for reducing poverty. The combined efforts of HIPC I and HIPC II are estimated to reduce debt stocks of the HIPC countries by US$28 billion in NPV terms (Gunter; 2002: 6).

[32] Debt-to-fiscal revenue refers to the amount of debt a country owes in comparison to that country's total fiscal earnings from e.g. taxes etc. Under the Enhanced HIPC Initiative, if a country's debt is 250% or more than its fiscal revenue, it qualifies for assistance.

Table 5:

Comparing original HIPC with the Enhanced HIPC framework

	HIPC	Enhanced HIPC
Countries benefiting	26 out of 41	36 out of 41
Timeframe	6 years with some flexibility	3 years minimum, with a flexible Completion Point depending on progress in implementing clear poverty reduction plans, while maintaining macro-economic stability
Deeper?	• 200-250% debt/exports • 280% debt/revenue (thresholds at: 40% exports/GDP, 20% revenue/GDP) • 80% Paris Club • ODA debt relief not clarified	Yes, but only halfway to what is required. • 150% debt/exports • 250% debt/revenue (threshold reduced to 30% exports/GDP, 15% revenue/GDP) • 90% or more Paris Club relief • ODA cancellation subject to certain mechanisms
Interim assistance	Possible increased aid, and possible 80% Paris Club relief on debt service	Yes. Multilateral relief on debt service, comparable to that provided by the Paris Club – but it is still unclear how much
Conditionality	IMF is the gatekeeper on debt relief: progress under HIPC linked throughout to performance of IMF Enhanced Structural Adjustment Facility (ESAF) programme	Major change, but unclear how this will work in practice. ESAF now renamed as the Poverty Reduction and Growth Facility (PRGF). Conditionality is now linked to achievements in implementation of a Poverty Reduction Strategy Paper (PRSP), which includes macro-economic stabilisation measures. It is unclear whether the IMF agrees to allow overall poverty reduction performance take precedence over traditional macro-economic policy reform measures
Link to Poverty Reduction	Weak	Substantial. See above on Conditionality. It is still unclear how this will work in practice. Nor does the enhanced HIPC framework provide enough finance, which in addition to increases in aid, could enable many countries meet the 2015 international development targets and thus properly address poverty reduction
Debt Relief and Financing	•Agreed $22.5bn HIPC relief, with $30bn relief through Paris Club traditional mechanisms	Increased debt relief. • Agreed around $50bn HIPC relief, $20bn ODA relief, and including $30bn relief through Paris Club traditional mechanisms. Of this amount, only the HIPB relief portion is additional, as virtually none of the ODA debt is being serviced and the Paris Club portion was already agreed • Agreed off-market sales of 14m ounces of IMF gold, subject to approval by US Congress, however only interest from proceeds will be used for debt relief

Source: Oxfam, "Outcome of the IMF/World Bank September 1999 Annual Meetings"

3.3 The Mechanisms of the Heavily Indebted Poor Countries Initiative

3.3.1 Who Qualifies?

In order to gain a firmer grasp of the HIPC Initiative, it is important to be aware of the machinations behind such a composite process. Not all debt-burdened countries are eligible for HIPC assistance, and countries must meet stringent requirements in order to be considered for debt relief under the HIPC Initiative: firstly, countries must face an unsustainable debt burden, beyond available debt relief mechanisms. Gunter (2002: 6) states that the HIPC Initiative defines a country as 'heavily indebted' if so-called 'traditional debt relief mechanisms' are unlikely to reduce its external debt to a sustainable level. Debt sustainability is determined by a net present value (NVP) debt-to-export ratio of 200-250% under HIPC I, and 150% under HIPC II. The criterion for being 'poor' is to be an 'IDA-only' country. Gunter (2000: 6) describes this as being a country that relies on financial resources from the World Bank's International Development Association (IDA). Secondly, countries must establish a track record of reform and sound policies through IMF and World Bank supported programs (IMF Factsheet; 2002)[33].

At present, there are 41 countries that are classified as heavily indebted poor countries. These countries are eligible for debt relief under the HIPC Initiative provided they have met, and continue to meet all of the prescribed criteria. HIPC classified countries are as follows: Angola, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Democratic Republic of Congo, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Kenya, Lao PDR, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam and Zambia (IMF Factsheet; 2002). Angola, Kenya and Vietnam are however, expected to be sustainable without special help from the Initiative.

[33] See also: Lozada (2000)

3.3.2 How Does the HIPC Initiative Work?

There are a number of stages[34] through which a country must pass before debt relief is authorised (Figure 2). Each of these stages requires countries applying for HIPC Initiative debt relief to reaffirm their commitment to pursuing reform policies and development strategies. To complete all stages and receive full assistance under the HIPC Initiative takes anywhere up to between 6-10 years. This time period is said to have been shortened under HIPC II. However, immediate debt relief for HIPC countries is not a reality.

The first phase: in order to qualify for assistance, the country must adopt adjustment and reform programmes supported by the IMF and the World Bank, and establish a satisfactory track record. Under the enhanced HIPC Initiative, countries are required to compile a Poverty Reduction Strategy Paper (PRSP) that is to be completed by the decision point. The PRSP must contain four essential features (Eurodad; 2000_a)[35]

1. A policy framework and agenda for tackling poverty
2. The PRSP must be comprehensive: integrating macroeconomic, structural, sectoral and social elements – with all policies consistent with the goal of poverty reduction
3. The PRSP must be developed in a participatory way including civil society
4. The PRSP must be 'nationally owned', in other words, the HIPC country is responsible for its own poverty reduction strategies.

The aims[36] of a PRSP are: to strengthen country ownership of poverty reduction strategies; to broaden the representation of civil society in the design of such strategies; to improve co-ordination among development partners; and to focus the analytical, advisory, and financial resources of the international community on achieving results in reducing poverty.

[34] See: IMF Factsheet (2002) www.imf.org/external/np/exr/facts/hipc.htm; IMF/World Bank (2001) "Debt Relief for Poverty Reduction: The Role of the Enhanced HIPC Initiative"; Haffajee (1998)
[35] See also: Verheul, E & Rowson, M (2001); European Commission DG Development (2000)
[36] See: World Education Forum (2000); Business Report (2002)

Countries must show proof of successfully implementing their PRSP for at least one year by the time they reach completion point[37].

The decision point: at the end of the first phase, a debt sustainability analysis is carried out in order to determine the current external debt situation of the country. If the external debt ratio for that country after traditional debt relief mechanisms is above 150% for the net present value of debt to exports, it qualifies for assistance under the Initiative (IMF Factsheet; 2002). At the decision point, the Executive Boards of the IMF and World Bank formally decide on a country's eligibility, and the international community commits to provide sufficient assistance by the completion point for the country to achieve debt sustainability calculated at the decision point (IMF Factsheet; 2002). Debt relief and other assistance begin flowing as soon as the decision point is reached, with the amount based on the country's immediate needs and capacity for channelling the funds to poverty-reducing purposes (IMF/World Bank; 2001: 3).

The second phase: once eligible for support under the Initiative, the country must establish a further track record of good performance under IMF/World Bank-supported programs. The length of this second period under the Enhanced HIPC Initiative is not time bound, but depends on the satisfactory implementation of key structural policy reforms agreed at the decision point, the maintenance of macroeconomic stability, and the adoption and implementation of the poverty reduction strategy developed through a broad-based participatory process. During this second phase, bilateral and commercial creditors are expected to reschedule outstanding debt instalments, with a 90% reduction in net present value. Both the IMF

[37] For more detailed information on PRSPs, see: Callaghy (2001); Eurodad (2000) "PRSP-The Story So Far" available at www.eurodad.org/2poverty/indexpoverty1.htm; Eurodad (2000) "Poverty Reduction Strategies: What Have We Learned So Far?" available at www.eurodad.org/2poverty/indexpoverty1.htm; Pepera & Scott (2002) "Can PRSPs influence the national politics of poverty reduction?" available at www.odi.org.uk/poldev.html; Raghavan, C (2001) "Speed Debt Relief: Delink HIPC and PRSP" available at www.twnside.org.sg/title/delink.htm; Verheul, E & Rowson, M. (2001) "Poverty Reduction Strategy Papers" in British Medical Journal vol. 323 issue 7305; United Nations Commission on Human Rights (2001) "Economic, Social and Cultural Rights" available at www.unhchr.ch/Huridocda/Huridocda.nsf/0/d3b348546ad5fb91c1256a110056aca4/$FILE/G0110184.pdf.

and the World Bank will provide interim relief at this point until the country reaches its decision point. Other multilateral creditors are considering advancing some of the assistance to be given after the completion point. Under the original HIPC framework, this second phase was known as **the interim period:** this was a fixed three year period between the decision point and the completion point, during which a country committed to undertake a broad-based program of adjustment and reform in partnership with the World Bank and the IMF. These reform policies included maintaining sound macroeconomic management, improving the quality of public expenditure, strengthening institutional capacity, and enhancing the delivery of social services (World Bank Annual Report; 1998: 95).

The completion point: Countries that have successfully passed through the prior stages arrive at the completion point, where the remaining assistance is given. Under the Enhanced HIPC Initiative the use of floating completion points permits strong performers to reach their completion point earlier. Once a country has reached its completion point, bilateral and commercial creditors are obliged to reduce the net present value of the stock of debt proportional to their overall exposure to the HIPC. Many bilateral creditors have announced their plans to deliver debt relief over and above their HIPC commitments. Multilateral creditors offer a further reduction in the net present value of their claims on the country based on broad and equitable action by all creditors sufficient to reduce the country's debt to a sustainable level.

Figure 2:

Source: Callaghy (2001); IMF/World Bank (2001)

Enhanced HIPC Initiative Flow Chart

First Stage

- Country establishes three-year track record of good performance and develops together with civil society a Poverty Reduction Strategy Paper (PRSP); in early cases, and interim PRSP may be sufficient to reach the decision point.
- Paris Club provides flow rescheduling on Naples terms; i.e., rescheduling of debt service on eligible debt falling due (up to 67 percent reduction on a net present value basis).
- Other bilateral and commercial creditors provide at least comparable treatment.
- Multilateral institutions continue to provide adjustment support in the framework of the World bank and IMF supported adjustment programs

Decision Point

EITHER

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors **is adequate** for the country to reach external debt sustainability.

→ **EXIT**

(Country does not qualify for HIPC Initiative assistance)

OR

Paris Club stock-of-debt operation under Naples terms and comparable treatment by other bilateral and commercial creditors **is not sufficient** for the country to reach external debt sustainability.

→ World Bank and IMF Boards determine eligibility for assistance

All creditors (multilateral, bilateral and commercial) commit debt relief to be delivered at the floating completion point. The amount of assistance depends on the need to bring the debt to a sustainable level. This is calculated based on the latest available data at the decision point.

Second Stage

- Country establishes a second track record by implementing the policies determined at the decision point (which are triggers to reaching the floating completion point) and linked to the (Interim) PRSP.
- World Bank and IMF provide interim assistance.
- Paris Club provides flow rescheduling on Cologne Terms (90% debt reduction on NVP basis or higher if needed)
- Other bilateral and commercial creditors provide debt relief on comparable terms.
- Other multilateral creditors provide interim debt relief at their discretion.
- All creditors continue to provide support within the framework of a comprehensive poverty reduction strategy designed by governments, with broad participation of civil society and the donor community

"Floating Completion Point

- Timing of completion point is tied to the implementation of a comprehensive poverty reduction strategy, including macroeconomic stabilisation policies and structural adjustment.
- All creditors provide the assistance determined at the decision point; interim debt relief provided between decision and completion points counts towards this assistance.
- All groups of creditors provide equal reduction (in NVP terms) on their claims as determined by the sustainability target. This debt relief is provided with no further policy conditionality.

⇒ Paris Club provides stock-of-debt reduction on Cologne Terms (90% NVP reduction or higher if needed) on eligible debt.

⇒ Other bilateral and commercial creditors provide at least comparable treatment on stock of debt.

⇒ Multilateral institutions provide debt relief, each choosing from a menu of options and ensuring broad and equitable participation by all creditors involved.

3.4 Funding the HIPC Initiative

The external debt burden of the 41 HIPCs, according to 2001 figures, stands at approximately US$200 billion (CIA Country Profiles). The total cost of providing assistance to 34 countries under the Enhanced HIPC Initiative is estimated to be about US$36.4 billion in 2001 NPV terms (IMF/IDA; 2002: 11). This amount is said to free countries from US$56 billion in debt repayments (IMF/World Bank Factsheet). Half of this will be provided by bilateral creditors, and most of the rest will come from multilateral lenders. Nearly two-thirds of the total cost, an estimated US$25.9 billion has been committed to the 26 decision point countries[38] (IMF/IDA; 2002: 13). The Executive Board authorised using the balance of investment income generated from IMF gold sales, which amounted to roughly US$800 million (IMF/World Bank Factsheet).

3.4.1 Status of Creditor Participation

Multilateral creditors account for US$17.6 billion of the US$36.4 billion in total cost estimated for the HIPC Initiative in 2001 NPV terms (IDA/IMF; 2002: 15). This amounts to roughly half of all debt relief pledged. The multilateral creditors are comprised of the World Bank, the International Development Association (IDA), the (IBRD), the IMF, the African Development Bank (AfDB), the International Development Bank (IDB), as well as other lending institutions. Nearly all of the abovementioned creditors have committed to provide interim relief, with the IDA, IMF and the AfDB providing countries interim assistance to countries that have reached their decision points. To date, multilateral creditors have delivered an estimated US$3.2 billion (IDA/IMF; 2002: 16). This is a 28% increase from September 2001 (IMF/IDA; 2002:16).

The total cost to the World Bank is US$8.1 billion in 2001 NPV terms. Of this, US$6.5 billion has already been given to countries that have reached their decision points. This amounts to approximately 22% of total debt relief pledged (Gupta et al; 2001: 6).

[38] See Table Six, page 69 for a break down of decision point and completion point countries.

The Total costs to the IMF are estimated at US$2.7 billion in 2001 NPV terms (IDA/IMF; 2002: 17). Of this amount, US$1.9 billion has already been committed to 26 countries under the Enhanced HIPC Initiative. Of this, US$0.8 billion in HIPC relief has been delivered in the form of grants, which are "disbursed into an investment account owned by each HIPC that has reached its decision point and administered by the IMF, and are used to meet these countries' debt service payments to the IMF as they fall due" (IDA/IMF; 2002: 17).

The AfDB is concerned primarily with African countries, and has supplied US$1.8 billion in 2001 NPV terms to the 22 African countries to have reached their decision points (IDA/IMF; 2002: 18). A total of US$1.5 billion has been committed, (approximately 8% of total debt relief) of which US$307 million will be contributed from internal resources (IDA/IMF; 2002: 18). The HIPC Trust Fund has entered into debt relief agreements with the AfDB covering 18 interim relief cases, 3 completion cases (Burkina Faso, Mali, Uganda), and 1 arrears case (Guinea-Bissau). These agreements have provided a total of US$468 million in debt relief (IDA/IMF; 2001: 14).

There are 27 other multilateral creditors that have pledged roughly US$2.6 billion in 2001 NPV terms, of which relief to the first 26 countries amounts to US$2.1 billion (IDA/IMF; 2002: 18). Despite almost all multilateral creditors indicating their willingness to participate in HIPC II, administrative delays and financing issues have meant that HIPCs have been unable to receive speedy debt relief packages. The IMF and the World Bank identify an "urgent need for those multilateral creditors to demonstrate their commitment to the Initiative by accelerating the approval and delivery of the much needed debt relief…as these continued delays could frustrate efforts geared towards attaining debt sustainability and fostering poverty reduction and economic growth in these countries" (IDA/IMF; 2001: 15).

Bilateral creditors account for approximately US$14.1 billion of the total cost of the HIPC Initiative (Gupta et al; 2001: 6). Bilateral creditors include the Paris Club and other non Paris Club government lenders.

The Paris Club[39] came into being in 1958 and is an informal group of official creditors whose role is to find co-ordinated and sustainable solutions to the payment difficulties experienced by debtor nations (www.clubdeparis.org). The Paris Club became the core of the international debt regime for official debt (Callaghy; 2001: 2) and operates according to 5 key principles:

1. The Paris Club makes decisions on a case by case basis
2. No decision can be reached without full consensus between members
3. Debt treatments are only given to countries that agree to implement reform policies. Conditionality is therefore a precondition to Paris Club assistance
4. Solidarity exists amongst Paris Club members regarding the implementation of the terms agreed In the context of the Club
5. The Paris Club preserves the comparability of treatment between different creditors, as the debtor country cannot grant to another creditor a treatment less favourable for the debtor than the consensus reached in the Paris Club (www.clubdeparis.org).

Under the Enhanced HIPC Initiative, the Paris Club creditors provide debt relief on a case-by-case basis through a flow of rescheduling on Cologne[40] terms in the interim period (IDA/IMF; 2001: 15). They are estimated to account for US$14.1 billion, or roughly 39% of the total cost of the HIPC Initiative in 2001 NPV terms. About US$9 billion has already been committed to those who have reached their decision points (IDA/IMF; 2002: 20). Most Paris Club creditors have pledged to deliver debt relief at the completion point, but several countries have offered to deliver additional assistance from the decision point. The overall effect of these commitments is to reduce HIPCs debt burdens by an estimated US$4.9 billion in NPV terms (IDA/IMF; 2002: 20).

Non Paris Club official bilateral creditors are comprised of a "disparate group, including some low-income countries and HIPCs, and in some cases face legal constraints in the delivery of debt relief (IDA/IMF; 2001: 17). These governments are expected to deliver relief totalling US$3.2 billion, or between 8.8%- 9% of the total

[39] For in-depth information on the Paris Club, visit their website at www.clubdeparis.org

[40] The Cologne Terms was the product of the Cologne Summit held in 1999. The outcome of the Cologne Summit was to raise the level of cancellation for the poorest countries up to 90% or more if

HIPC cost (IDA/IMF; 2001: 16). However, few of these creditors have delivered their pledged relief. Since September 2001, the IMF/IDA Status of Implementation Report (2002: 20) states that participation by non-Paris Club official bilateral creditors has been increasing. Hungary has indicated its willingness to provide relief to HIPC's on which it has claims, and South Africa has agreed to write off its claims on Malawi. Saudi Arabia has agreed to provide relief to Madagascar and Uganda, whilst Kuwait has rescheduled its claims on Burkina Faso, Cameroon, Uganda, Tanzania, and Mauritania. This progress is deemed 'very encouraging' by the World Bank and the IMF, however, it is reiterated that more participation from non-Paris Club members is essential.

Commercial creditors are comprised of banks and other commercial institutions. Thus far, these creditors have pledged US$1.2 billion in 2001 NPV terms (IMF/IDA; 2002: 21), which translates into 3% of the total HIPC cost (IDA/IMF; 2001: 18). The IDA-administrated commercial debt reduction facility provides grant financing and logistical support to HIPCs to conduct commercial debt buyback operations at no cost to the debtor (IDA/IMF; 2001: 19). Other than this buyback option, very few commercial creditors have agreed to provide even limited debt relief. In some cases HIPCs have paid commercial creditors in full due to the threat of litigation and the desire to avoid disrupting the commercial relationship. Most HIPCs do not even seek debt relief from these creditors (IDA/IMF; 2001: 19).

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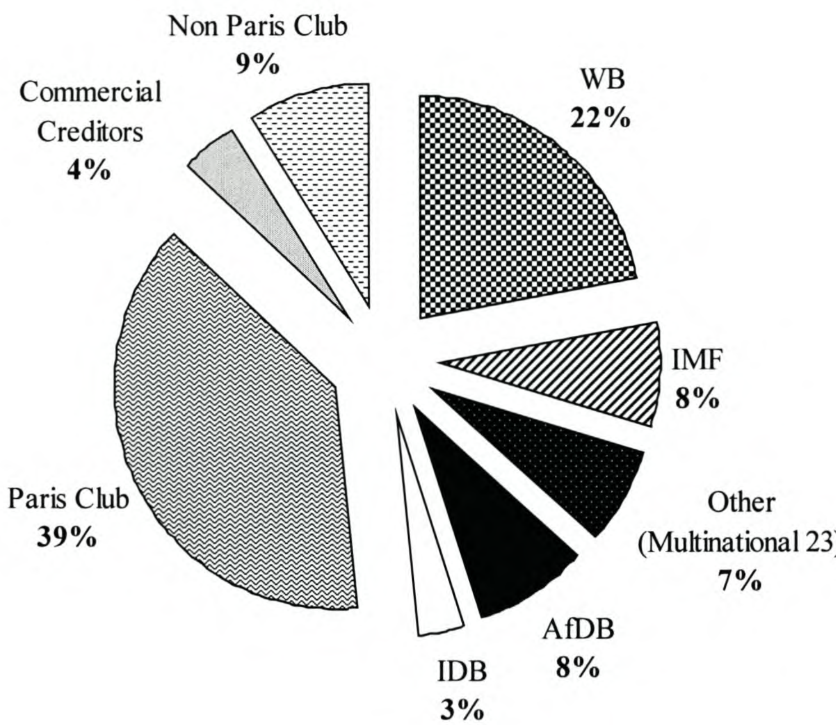
necessary in the framework of the HIPC Initiative. For in-depth information of the results of the

Figure 3:

Estimated creditors share of total HIPC cost



Source: IMF Status of HIPC Implementation 2002

3.5 Progress So Far

According to the IMF (2002: 1), as of late March 2002, 26 countries are benefiting from HIPC relief (Table 6). Since September 2001, two countries, Mozambique and Tanzania have reached their completion points, with Burkina Faso being the most recent to reach its completion point on April 11, 2002. Ethiopia, Ghana, and Sierra Leone reached their decision points during the same period, and it is expected that Cote d'Ivoire will be considered for preliminary assistance under the Enhanced HIPC initiative. As of April 12, 2002, Benin, Mali, and Mauritania were estimated to reach their completion points within six months. Of the three, only Mauritania has managed

Cologne Summit with regards to HIPCs visit: www.cludbeparis.org to do so. The Central African Republic, the Democratic Republic of Congo, and the Comoros are still to be considered, providing they make progress toward Fund-supported reform programs.

Table 6

Grouping of HIPCs under the enhanced Initiative: Status as of July 2002

HEAVILY INDEBTED POOR COUNTRIES				
Angola*	Congo*	Honduras	Mozambique	Somalia*
Benin	Congo Dem. Rep.*	Kenya	Myanmar*	Sudan*
Bolivia	Cote d'Ivoire	Lao PDR	Nicaragua	Tanzania
Burkina Faso	Ethiopia	Liberia*	Niger	Togo
Burundi*	Gambia	Madagascar	Rwanda*	Uganda
Cameroon	Ghana	Malawi	Sao Tome and	Vietnam
Central African Republic*	Guinea*	Mali	Principe	Zambia
Chad	Guinea-Bissau	Mauritania	Senegal	
Comoros	Guyana		Sierra Leone*	

HIPC RELIEF APPROVED AT DECISION POINT (26)			**DECISION POINT NOT YET REACHED (12)**		**(POTENTIALLY) SUSTAINABLE CASES (4)**
Benin	Guinea-Bissau	Niger	Burundi	Lao PDR	Angola
Bolivia†	Guyana	Rwanda	Central African	Liberia	Kenya
Burkina Faso†	Honduras	Sao Tome	Rep	Myanmar	Vietnam
Cameroon	Madagascar	and Principe	Comoros	Somalia	Yemen
Chad	Malawi	Senegal	Congo Dem. Rep.	Sudan	
Ethiopia	Mali	Sierra Leone	Congo Rep. of	Togo	
The Gambia	Mauritania†	Tanzania†	Cote d'Ivoire		
Ghana	Mozambique†	Uganda†			
Guinea	Nicaragua	Zambia			

Sources: IMF estimates. www.imf.org/HIPC; *IMF/IDA HIPC Status of Implementation April 2002*
* *Conflict affected countries*
† Completion Point Countries

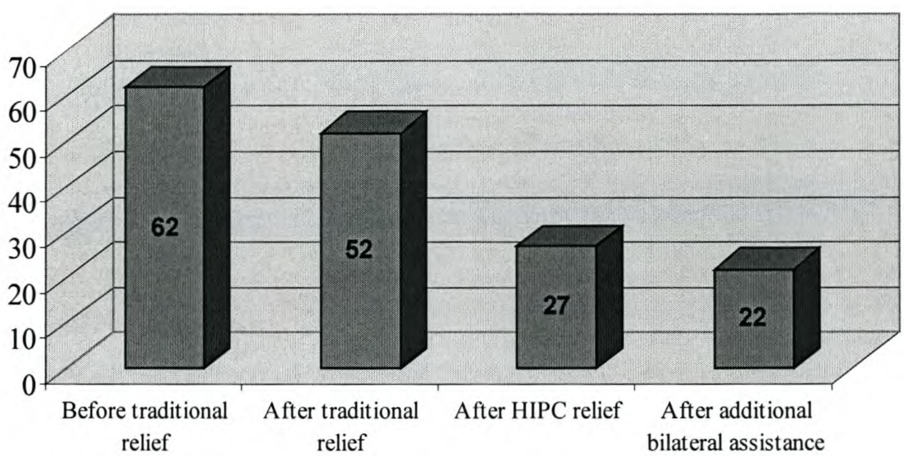
3.5.1 Impact on Debt Relief

Translating the above into monetary terms, approved HIPC countries will receive debt relief to the tune of US$25 billion in NPV terms, which amounts to US$40 billion in nominal debt-service relief over time. "The debt stocks of the 26 countries taken as a whole (Figure 4) will fall from a level of around US$62 billion in NPV terms, to US$27 billion after the full application of traditional relief mechanisms and assistance under the HIPC Initiative, and to US$22 billion after bilateral debt beyond the HIPC

Initiative committed by several bilateral donors – this can be interpreted as an overall fall in debt stocks of nearly two-thirds" (IMF/IDA; 2002: 4).

Figure 4

NPV of debt for the 26 decision point countries (in US$ billions)

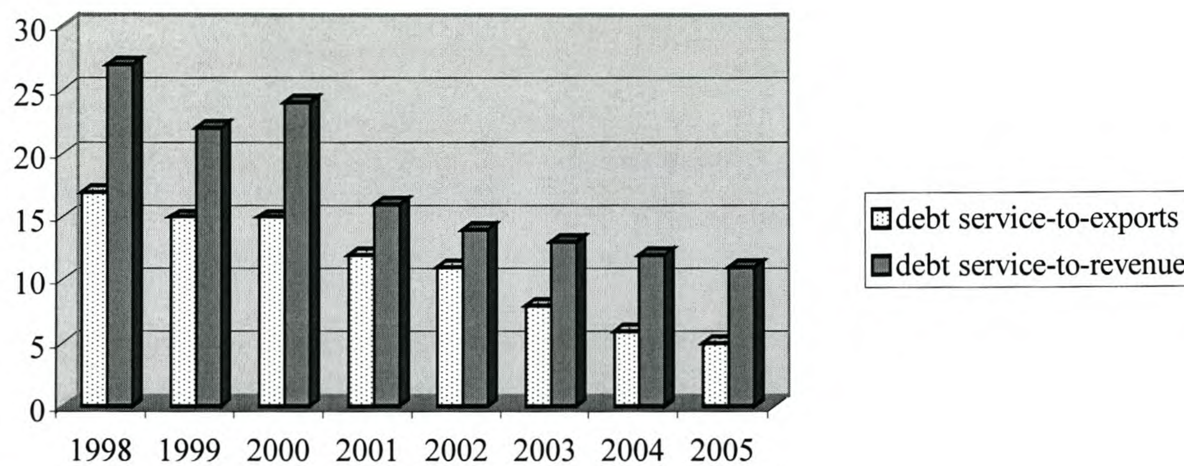


Source: IMF status of HIPC Implementation 2002

For the 26 countries as a whole, overall annual debt service paid during 2001-05 is expected to be cut by about 30 % relative to annual debt-service payments made in 1998-99 (IMF/IDA; 2002: 5). This translates to an annual average decline in debt service payments of 1.3% of GDP. Debt service as a percentage of exports is projected to fall from an annual average of 16.1% in the past, to a projected 8.8% in 2001-05, and debt service relative to government revenue is projected to fall from an average of 24.35% a year in 1998-99 to 13.1% in 2001-05 (Figure 5).

Figure 5

Debt service ratios after HIPC relief for 26 decision point countries



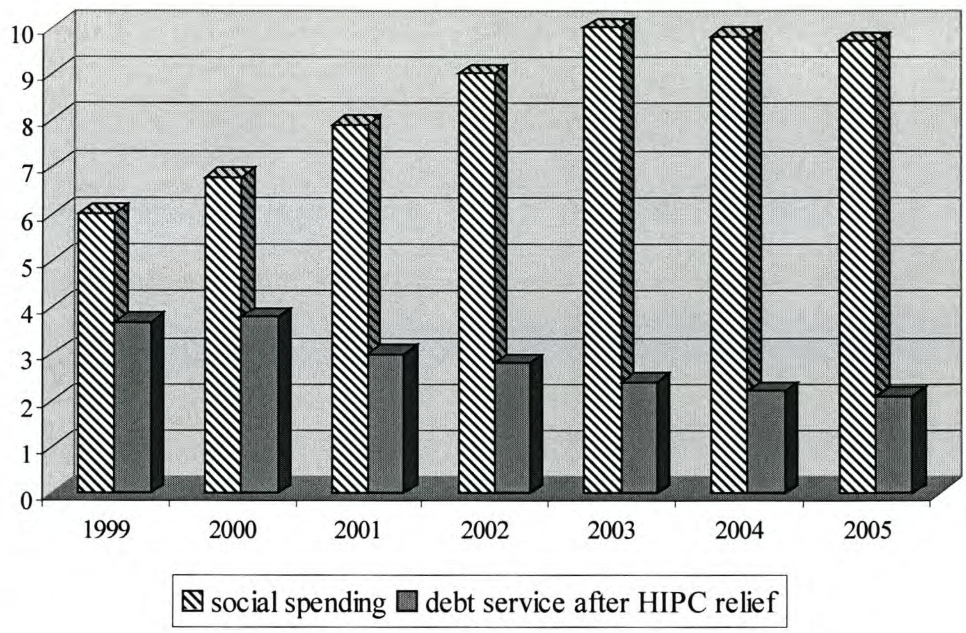
Source: IMF/IDA Status of HIPC Implementation 2002

3.5.2 What Does This Mean for Social Spending?

Relief under the HIPC Initiative will enable HIPC governments to substantially increase resources devoted to reducing poverty (Figure 6). According to the IMF/IDA (2002: 6), during the period 2002-05, the 26 decision point countries will spend on average three times more on social sectors than they will on debt service. Social spending increased from 37% to 47% of revenue between 1999 and 2001. "This reflects a significant reorientation of government expenditure, with spending on social expenditures projected to rise from 65 of GDP in 1999, to 9% of GDP in 2002. As a share of government revenue, social spending would increase from 37 percent before HIPC relief to an average of 55 percent after HIPC relief" (IMF/IDA; 2002: 7).

Figure 6

Social spending and debt service due after HIPC relief for 26 decision point countries (in % of GDP)



Source: IMF/IDA Status of HIPC Implementation 2002

3.6 Conclusion

The HIPC Initiative is the developed worlds answer to the pleas of desperation echoing from developing nations whose debt burdens are engulfing them. The aim of the Initiative is to provide fast, effective debt relief to countries with unsustainable debt burdens in the hope of breaking the cycle of debt. Much has been made of the HIPC Initiative with its advocates touting the venture a success, and its critics labelling it as just another poor and uninspiring effort by the developed world to appear as martyrs. Chapter Four begins a critical deconstruction of the HIPC Initiative in an attempt to bring to the fore its shortcomings and challenges that render the Initiative at times ineffective.

Chapter Four: Is HIPC Working? A Critical Analysis of the HIPC Initiative

4.1 Introduction

The evolution of debt awareness culminated in the implementation of the HIPC Initiative. However, the growing consciousness of world poverty and indebtedness seems unable to shatter the glass ceiling of conditionality imposed by the developed world. HIPC countries along with the rest of the developing world can only progress tentatively along the path of development before inevitably encountering the persuasive counsel of the developed world with the IMF and World Bank at its flanks. Conditionalities imposed from above clip the wings of developing nations, and in doing so induce them to follow the well-trodden yet ill-suited Western path of development.

The HIPC Initiative seeks to break the archetypal relationship between the developed and developing worlds in that for the first time, developing nations are encouraged to implement their own reform policies instead of merely implementing the dictates of the Western world. The World Bank and IMF advocate the goodwill behind the Initiative, as it may indeed mark the beginning of a new era of co-operative North-South relations. Many critics however, liken the Initiative to blackmail. Drawing on the framework of the HIPC Initiative detailed in Chapter Three, this chapter will critically examine the most significant criticisms and weaknesses of the Initiative in a bid to determine its effectiveness. The analysis is pursued in the context of its affiliations with neo-liberal policies, and bearing in mind the third way approach outlined in Chapter One.

The following evaluation is centred around the standpoint that debt relief mechanisms, including the HIPC Initiative, should be more cognisant of the plight of people living in abject poverty. It is argued that taking the 'debt relief for the people' approach to debt relief (see Chapter Two) will yield more positive results for the people on the ground than the 'debt relief for economics' approach. After highlighting the major weaknesses of the Initiative, and contrasting them to the contending views held by the neo-liberal institutions of the IMF and World Bank on one hand, and those who support the alternative approach to economic development as advocated by the 'third way', on the other, this chapter will conclude that in many ways, the HIPC Initiative has failed the very people its creators vowed it would defend.

4.2 Critical Analysis of the HIPC Initiative

Ethiopian Prime Minister Meles Zenawi strongly condemns the HIPC Initiative: "What I find most objectionable about this initiative and most other debt reduction initiatives, is that they are being used as the whip to enforce unquestioning acceptance of the economic orthodoxy, the so-called Washington Consensus, that is being promoted by some international financial institutions. The abysmal failure of this orthodoxy in Africa over the past decade and a half clearly suggests that it can and must be questioned. The choice we are left with under HIPC is thus to either abandon all independent and rational thinking in economic policymaking or wallow in the quagmire of unsustainable debt. It is a choice between the devil and the deep blue sea. To use the whip of the debt overhang to enforce this orthodoxy in debt-ridden countries is in some ways tantamount to blackmail and is therefore both unviable and immoral" (Bentsi-Enchill; 2000).

This strong condemnation of the HIPC Initiative is by no means voiced by all African leaders, who on the whole seem excited and positive about the opportunities for development and self-reliance afforded them by the African Union (AU) and NEPAD. However, this negative sentiment is echoed by some governments and NGOs, especially those that were involved in elevating the issue of unsustainable debt burdens to international prominence.[41] The World Bank and the IMF have maintained from the outset that the HIPC Initiative is 'no panacea', and that the mechanism should be seen as merely one piece of the jigsaw puzzle that, once assembled, will effectively address unsustainable debt and poverty. This can easily be dismissed as a cop out, and perhaps it is. NGOs and many HIPCs themselves perceive the Initiative

[41] See: Booker (2000); Elliott (2000); Elliott and Denny (1999); Eveleth (1999); Gutfeld; (2001); Kithama (2001)

to be a half-hearted attempt at addressing an issue whose solution lies in the absolute commitment of all involved.[42]

As is the case with most issues in the sphere of international political economy, views differ on the fundamental concerns regarding the implementation and effectiveness of the HIPC Initiative. The purpose of this chapter therefore, is to consider the effectiveness of the HIPC Initiative through addressing both the arguments of the World Bank and IMF on the one hand, and on the other hand the pro-poor arguments advocated by the 'third way' approach, often articulated by NGOs and scholars. The assessment of the HIPC Initiative will discuss and evaluate examples from each of these perspectives as they comment on: establishing debt sustainability; the use of conditionality and poverty reduction strategy papers; the funding of the HIPC Initiative; prospects for escaping the debt trap; and finally, the HIPC Initiative will be evaluated in light of reaching the Millennium Development Goals.

4.2.1 Establishing Debt Sustainability to Qualify for HIPC Relief

The determining of debt sustainability is a contentious issue surrounding the HIPC Initiative, as debt sustainability is one of the main determinants of whether a country can be considered for HIPC assistance (Chapter Three: 59). Being one of the most important requirements for HIPC relief, it is argued by critics that the thresholds of determining whether or not a country has an unsustainable debt burden are too high, and therefore exclude countries that could greatly benefit from HIPC relief. The World Bank and IMF maintain that debt sustainability thresholds are adequate.

On the one hand, critics such as Eurodad argue that the indicators used to determine whether a country carries an unsustainable debt burden approaches the issue from a "'top-down' macro-economic perspective that does not take into account the resources that HIPC's require to tackle human development concerns" (Eurodad; 1999: 2). Eurodad (1999: 2) maintains that the current debt sustainability indicators used by HIPC II (i) are too high, (ii) place too much emphasis on debt stocks as

[42] See: Booker (2000); Elliott (2000); Elliott and Denny (1999); Eveleth (1999); Gutfeld; (2001); Kithama (2001)

opposed to debt servicing, (iii) stress exports which are an inappropriate measure of debt sustainability. The World Bank and IMF have admitted that these debt sustainability thresholds are not empirically derived, that they are arbitrary, and that they are used because they were relevant during the debt crisis in Latin America during the 1980's (Eurodad; 1999: 2).

HIPCs, especially in Africa, are low-income countries that are vulnerable to external shocks, have poor infrastructure and bear witness to extreme poverty. For these countries, even a low level of debt exacerbates poverty. It is for this reason that NGOs and observers such as Eurodad (1999: 2)[43] emphatically believe that current debt sustainability indicators are "far too high", and that they prohibit drastically poor nations from applying for HIPC relief. Eurodad critics maintain that "the term 'sustainability' really means that only enough debt relief will be granted to ensure that HIPCs can continue servicing their debts, with the least possible cost to creditors. The Initiative ultimately only produces 'good debtors' rather than significant debt reduction. The HIPC Initiative is designed to reduce debt burdens to a level at which debt service due equals debt service paid. This means that the net gains from debt relief under the Enhanced HIPC framework will be minimal. Far from representing a 'breakthrough for the poor of the world' in terms of freeing up scarce resources for essential investments in health and other sectors, we believe that HIPC has so far resembled a glorified accounting exercise" (Eurodad; 1999: 2). This sentiment is echoed by Greenhill & Blackmore (2002: 4) as they argue that "the HIPC process has encouraged poor countries to become better debtors, by increasing their debt service payments. Under HIPC, total debt service due increased from US$1.197 million in 2000, to US$1.838 million in 2001 and US$1.968 million in 2002".

Conversely, the World Bank and IMF defends its approach to determining debt sustainability by maintaining that there is an undeniable link between the level of a country's exports, its GDP growth and hence its debt sustainability, and it is for this reason that debt sustainability is primarily measured by the debt-to-export-ratio (see Chapter Three). In determining whether a country has an unsustainable debt burden or not, three key determinants can be identified: the existing stock of external debt and its repayment terms; the country's ability to repay its foreign debt, based on growth of income, exports, and fiscal revenues; and the characteristics of new external financing available to the country – the amount of financing, mix of grants and loans, and the terms on which the financing is available (World Bank & IMF; 2001: 15-16). The Bank and Fund (2001: 16) go on to argue that these three determinants are closely interrelated and are themselves influenced by past domestic and external economic policies and have an influence on future policies. Thus, a heavy debt burden today can worsen poverty in the future by discouraging investment flows and reducing funds available for development spending. And a country's ability to repay its debt based on growth of national income and exports together with new external finance depends largely on both current and future policies. The relationship is clear: when export revenues grow strongly, they give a positive boost to GDP, which can increase government revenues available to pay back debt.

Furthermore, the World Bank and IMF are concerned with establishing whether a country has an unsustainable debt burden, not whether a country is considered to be poor. A country with a vast percentage of its population living below the poverty line does not necessarily have proportionate debt obligations. Table four in Chapter Two (pg 49) examines the HIPCs' debt burdens and percentage of the population below the poverty line. By looking at this table, it becomes apparent that the correlation between the percentage of the population below the poverty line, and the amount of debt owed is irregular and cannot be accepted as an accurate indication of debt sustainability. For example, Vietnam (US$13.2 billion) has more than twice the debt burden of Zambia (US$6.5), yet Zambia has a staggering 86% of its population below the poverty line compared to Vietnam's 37%. Chad has a US$1 billion debt burden and has 64% of its population in poverty, whilst Ghana has seven times the debt burden (US$7 billion) with only 31.4% of its population in poverty (UN Human Development Report 2002; CIA Country Profiles). This clearly indicates that there is more to establishing debt sustainability than whether or not a country is poor, and that establishing debt sustainability must take into consideration other determinants such as sound economic policies, and a commitment to economic growth.

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[43] See also: The World Development Movement (2000)

In answer to this, critics such as Gunter (2002: 7) maintain that if the World Bank and IMF approached debt sustainability from a "human and social development perspective most of the poorest countries *do* have unsustainable debt". For example, instead of using debt-to-export ratios, social spending-to-debt repayment ratios may be employed. In some countries, half of all government revenue goes to servicing debt repayments, leaving minimal resources for desperately needed social spending. Eurodad (1999: 1) echoes Gunter's point by stating that debt sustainability must be approached in a 'holistic fashion' with the technical aspects of debt relief tied inextricably to sustainable human and social development, and not purely export ratios.

The argument advocated by Palley (2002) for a move away from export-led growth in favour of domestic demand-led growth (Chapter One: 22) may lead to the IMF and World Bank moving away from the emphasis on the primacy of exports and therefore measure debt sustainability by debt-to-social spending ratios.

The NEPAD proposal advocates the use of fiscal revenues for granting debt relief rather than the export criteria used by the World Bank and IMF (Greenhill & Blackmore; 2002). "This is because it is fiscal revenues that really matter when determining debt sustainability (in other words, the *ability* to pay). Whilst export revenues provide governments with the hard currency from export earnings to repay debt, governments do not own all of the export revenue their country earns. It is government tax revenues that really determine how much a government can afford to pay" (Greenhill & Blackmore; 2002).

Advocates of the 'third way' believe that the basic needs of the population are of higher priority than serving debts. In light of this, NGOs advocate that debt relief should be linked more closely to the Millennium Development Goals[44] (MDGs). "Debt acts as a major impediment to growth by deterring foreign and domestic investment, while at the same time debt servicing diverts scarce resources away from poverty reduction measures. Debt relief therefore has a central role to play in meeting the MDG targets" (Eurodad; 1999: 3).

[44] The Millennium Development Goals were set by the world's major industrialised economies with the aim of halving global poverty levels by the year 2015. There are nine MDGs altogether and address issues such as health, education and human rights.

In light of the persuasive arguments offered by the contending views held by the World Bank and IMF, and third way theorists, it becomes clear that standing alone, the debt-to-export ratio of 150% and debt-to-fiscal ratio of 250% remain inadequate to determine debt sustainability, and that social indicators should be included. There are indeed cases in which countries are struggling with huge levels of poverty, and large debt burdens, yet do not qualify for HIPC assistance. However, to scrap all economic indicators in the determining of debt sustainability would be to remove the objectivity from the process, as economic indicators offer the most objective measurement of the level of development. Furthermore, to take into consideration debt-to-social-spending ratios, as proposed by Gunter and other critics, is not to humour the subjective, as it is agreed upon by all parties that debt repayments hamper social spending which in turn hampers economic growth. Therefore, should the World Bank and IMF take a more holistic stance in determining debt sustainability? Definitely, because a holistic, people-centred approach, as advocated by the 'third way' does not require the disposal of economic indicators, but merely requests a more open and inclusive approach that takes into account countries whose debt-to-export ratios may be below 150%, but which have a low debt-to-social-spending ratio. This approach is especially necessary in light of the ambitious Millennium Development Goals to be reached by 2015 (see: Figure Seven).

4.2.2 Conditionality and Poverty Reduction Strategy Papers

Another of the HIPC Initiative's most fundamental rationales is that countries seeking HIPC economic assistance must adhere to stringent reform policies aimed primarily at a country's economic sector. These conditionalities include a commitment to economic liberalisation, good macroeconomic performance, as well as a commitment to poverty reduction and development. In addition, political conditionalities pertaining to the system of government, incidence of corruption, respect for human rights and transparency are also posed. Indebted countries applying for HIPC relief are obliged to consent to the endorsement of these neo-liberal reform policies. Therefore, it is argued that the affliction of structural adjustment[45] still plagues the development

[45] For sources on the impact of structural adjustment in Sub-Saharan Africa, see: Van Der Hoeven & Van Der Kraaij (1994)

construct, and continues to be met with fierce resistance by developing nations[46]. It has been demonstrated time and time again that structural adjustment policies do not compliment the industrialisation of underdeveloped nations, but instead serve the interests of institutions and governments of the developed world[47].

However, Pender (2001: 409) argues that the face of structural adjustment has changed since its fierce imposition during the 1980s. He notes that "the World Bank has made unprecedented criticism of its own past policies" (Pender; 2001: 405). Pender (2001: 405) draws upon the World Development Report 1999/2000 and quotes the following: "some countries followed policies of liberalisation, stabilisation, and privatisation but failed to grow as expected…we have learned that when we ask governments to take the painful steps to put their economies in order we can create enormous tension".

Proponents of the World Bank argue that the structural adjustment policies of the 1980s are a thing of the past. "The current crusade within the World Bank is to make poverty reduction the core issue on the Bank's agenda at the beginning of the new century" (Pender; 2001: 406). Pender goes on to say that the World Bank's definition of poverty has changed, and is now based on the 'human poverty approach' which takes into account "nutritional status, educational attainment, and health status" to name a few (Pender; 2001: 406)[48]. Pender (2001: 408) maintains that the World Bank's development dialogue has been radically transformed from the "coercive conditionality under structural adjustment that was appropriate in conditions of economic crisis" to a more "relaxed approach" brought about by increasing confidence in the transparency of policy environments in the developing world. The World Bank's revised role in the 'partnership' with poor country governments is as a "'Knowledge Bank' defining and propagating a model of development best practise" (Pender; 2001: 409), and affording borrowing governments full ownership of policies they choose to pursue (Pender; 2001: 397). "In sum, there is a clearly stated rejection of [the World Bank's] past approach and a repeated commitment for the need for thoroughgoing change" (Pender; 2001: 406).

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[46] See: Simon, Van Spengen, Dixon & Narman (1995)
[47] See: Robinson (1995); Weissman (2000)
[48] See also: Bereuter (2001)

This assertion from the World Bank that structural adjustment is no longer part of its development strategy is not accepted by critics, who maintain that the HIPC Initiative is based upon structural adjustment-like reform policies. Pender (2001) summarises these critical points of view verbalised by many NGOs and advocates of the 'third way' that oppose all forms of imposed reform policies. "If one looks beyond the technocratic language [of the World Bank one will recognise that] governments that are not deemed by the World Bank to have adequately pursued 'good policy environments' will face the restriction of aid and lending facilities. These clearly espoused coercive measures indicate that… international public resources are being used to induce policy reform, and is therefore a form of conditionality" (Pender; 2001: 409). Conditionality may have moved away from achieving economic growth, however, in its new form is focused on the "subordination of society's resources in order to meet the perceived requirements of the poorest in that society" (Pender; 2001: 409). The World Bank may proclaim its mission to be to create 'a world without poverty' (Pender; 2001: 406), but should consider the possibility that this may be achieved without enforcing stringent conditionalities of any type.[49]

To illustrate the point made above, critics draw strength from the fact that HIPC relief is conditional to economic and political reform policies in the form of Poverty Reduction Strategy Papers (PRSPs). Whilst the words 'structural adjustment' are not openly used by the architects of the HIPC Initiative, the Initiative's requirement that countries prepare and implement a (PRSP) has been hailed by critics as "a new form of structural adjustment" (Raghavan; 2001: 4)[50]. The induction of PRSPs into the HIPC Initiative was hailed as a "sea-change in policy, and claimed to put poverty reduction at the heart of the overall policy frameworks for low-income countries" (Eurodad; 2000_a). PRSPs were described as a "new basis for development co-operation between developing countries and the international community" (Eurodad; 2000_a). Countries seeking HIPC relief are required to produce a PRSP detailing the "links between macroeconomic policies and agrees on international social development goals to be reached by 2015" (United Nations Commission on Human Rights; 2001: 10). As mentioned in Chapter Three, the PRSP must be compiled with

[49] See: "Against IMF Realism" (2000)
[50] See also: Eurodad (2000_c)

the input of civil society, thereby ensuring that the strategy is 'nationally owned'[51]. The term 'nationally owned' seems to be antithesis of imposed structural adjustment policies, and appears to consent to economists who call for a democratisation of the economy.[52] However, the content of most PRSPs reflect the same hotchpotch of conditions and trade-offs that ultimately leave developing nations struggling to comply. The fact that HIPCs themselves compile their PRSPs and Interim PRSPs means little when the IMF and World Bank are still indirectly dictating the content. Raghavan (2001) quotes from the Cheru Report,[53] which says, "real ownership of the poverty reduction framework can only happen if the threat of conditionality is removed by the IMF and the World Bank from the backs of vulnerable governments".

There are other pertinent issues to consider when assessing the inclusion of PRSPs in the HIPC Initiative. Firstly, the "quality of the poverty reduction strategies and the level of civil society participation are being compromised by the unrealistic time frame" set for the implementation of these strategies (United Nations Commission on Human Rights; 2001: 10). This effectively means that in a bid to meet impractical deadlines, HIPCs are forced to settle for mediocrity instead of having the time to ensure that sound and functional poverty reduction policies are put in place. This time frame issue also relates to the implementation of the I-PRSPs and PRSPs[54]. HIPCs are hurried into preparing a PRSP, but then must demonstrate the sound implementation of the policies over a period of one year or more. Critics believe that this period of implementation is too long, and that given the ruinous state of poverty in indebted countries, relief should be given immediately after HIPCs are determined as having an unsustainable debt burden[55].

The United Nations Commission on Human Rights (2001: 10) comments on the difficulties HIPCs often encounter when compiling their PRSPs and I-PRSPs. Examination of the 26 completed PRSPs and I-PRSPs reveals a "great unevenness in the quality of the documents". Reasons given for this unevenness include the time

[51] See: Economist (2000)
[52] See the arguments of MacEwan (1999) articulated in Chapter One, pg 17-18
[53] The Cheru report arose from the decision of the Human Rights Commission to create the mandate of the independent expert on the effects of structural adjustment policies and foreign debt on the full enjoyment of all human rights.
[54] See: Eurodad (2000_d)
[55] See: Sellers (2001)

issue discussed above and poor communication infrastructure in HIPCs, which makes consultation between government and civil society challenging. The report notes that "excessive numbers of policy prescriptions, or conditions, are a dominant feature of many of the PRSPs" (The United Nations Commission on Human Rights; 2001: 11). As a point of illustration, the report reveals that Tanzania's I-PRSP lists 157 policies that the government must implement during a two-year period. In addition, there are more than 20 policy conditions linked to debt relief, 10 policy conditions linked to the World Bank's Country Assistance Strategy, and additional conditions linked to the IMF and World Bank-financed structural adjustment loans (The United Nations Commission on Human Rights; 2001: 11). Benin is a similar case in point, with 111 conditions, which the government must implement. Exactly how debt relief will be used is barely mentioned, except for the statement that priority will be given to social spending (The United Nations Commission on Human Rights; 2001: 11). According to the report, much of the data used in both the I-PRSPs and PRSPs are out of date and inaccurate (The United Nations Commission on Human Rights; 2001: 11).

Further, the United Nations Commission on Human Rights Report draws attention to the fact that many of the papers examined do not display any intention to integrate major international human rights principles into their poverty reduction strategies. A focal concern in most papers is the need for increased social spending, however, how the macro-economic aspects of social spending relate to poverty reduction is not clearly explained" (The United Nations Commission on Human Rights; 2001: 11). A final consideration is that of accountability. Most I-PRSP and PRSPs emphasise the significance of transparency and fiscal accountability, and improving the access of the poor to public services, yet are discouragingly silent on how this may be achieved when "kleptocratic elites preside over the implementation of poverty reduction strategy frameworks" (The United Nations Commission on Human Rights; 2001: 11).

The United Nations emphasises that the broad macroeconomic objectives of HIPCs are inconsistent with the poverty reduction goals (The United Nations Commission on Human Rights; 2001: 12). This is a vital consideration in the critical analysis of the HIPC Initiative as it reiterates the fact that poverty reduction has not been incorporated into the Initiative to the extent claimed by the World Bank and IMF. According to the United Nations Commission on Human Rights (2001: 12), this is caused by the "unequal power relations between indebted countries and the institutions that manage the HIPC process, namely the IMF and the World Bank". 'Third way' advocates claim that the unequal power relations between the developed and developing worlds are directly due to the skewed allocation of resources, income and wealth fostered by neo-liberal policies. As a result of this, the governments of HIPCs "try to make their PRSP meet the lending criteria of the Fund and the Bank, and have thus placed too much emphasis on macroeconomic considerations, fiscal reform and privatisation measures to placate these powerful institutions, without thinking through how such policies impact on poverty reduction and in what context" (The United Nations Commission on Human Rights; 2001: 13). In effect, HIPCs are being bullied into volunteering to commit to structural reform policies under the threat that money will be withheld if they do not submit. Echoing the sentiments of most HIPCs, one finance minister anonymously quoted in the UN report says: "We do not want to second guess the Fund. We prefer to pre-empt them by giving them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – i.e. we believe in structural adjustment" (The United Nations Commission on Human Rights; 2001: 13).

It is evident that PRSPs are problematic[56]. This has led to the argument that PRSPs should be delinked from the HIPC Initiative. The basic premise of this argument is that debt relief will serve HIPCs in a more constructive manner if the limiting and problematic PRSP process was no longer required.

Whilst NGOs, anti neo-liberal theorists and HIPC governments have much to say about the detriments of PRSPs, and the hark-back to structural adjustment that they represent, the World Bank and IMF remain unmoved regarding delinking a country's PRSP obligations and the delivery of debt relief under the HIPC Initiative. The World Bank and IMF are in accordance with NGOs that the link between debt relief, poverty reduction and development should be strengthened, but differ in opinion regarding the usefulness of PRSPs. The IMF states in its HIPC Status of Implementation (2002: 26) "the linkage between debt relief, policy reform, and poverty reduction is central to the success of the HIPC Initiative. In order to ensure that debt service savings are used

[56] See: The Sowetan (2002)

effectively to benefit the poor, the enhanced framework envisages a track record of strong sustainable policy performance under IMF and IDA supported programs for the completion point to be reached". The World Bank and IMF maintain that it is vital that HIPCs prepare a PRSP for the following reasons[57]:

1. To ensure that the needs of the poor comes first in the public policy debate.
2. Experience has shown that lasting development and poverty reduction require a true transformation of society, driven by the countries themselves, in consultation with civil society and the private sector.
3. Armed with poverty reduction strategies, countries become masters of their own development, with a clearly articulated vision for their future and a systematic plan to achieve their goals.

In preparing a PRSP, a country follows a results oriented strategy, which means that the countries will understand the nature of poverty and determine which public actions will have the most impact on the poor. In this way, funds from the HIPC Initiative will be channelled into the sectors that need it the most.

Regarding the argument by NGOs and HIPCs that the implementation of a PRSP takes too long and slows down the relief process, the World Bank and IMF have this rebuttal[58]: In principle, countries seeking assistance under the HIPC Initiative should have a poverty reduction strategy in place at the decision point, and should have demonstrable progress in its implementation by the completion point. However, to avoid delays for countries that have been working toward their decision point, but have not had time to prepare a final strategy, there will be a transition period that will allow a country to reach its decision point if it can demonstrate a commitment to poverty reduction. A country can show its commitment through an interim poverty reduction strategy that sets out the broad outlines of a comprehensive poverty reduction plan, and the timetable and participatory process envisaged for its production. Furthermore, it should be recognised that, for many HIPCs, "the annual debt relief received during the interim period between the decision and completion points is a substantial share of the annual debt relief received after completion point. Hence, countries do not need to rush completion of their PRSP for the sake of

[57] See: www.worldbank.org/hipc/prsp

increasing flows of debt relief" (IMF/IDA; 2002: 27). The World Bank and IMF have indeed taken into consideration protests from NGOs regarding the time issue, and have decided to "allow for some flexibility in timing in cases where there has been satisfactory progress in implementing the PRSP, the other completion point triggers have been met, and the financial cost of delaying the completion point is significant" (IMF/IDA; 2002: 28).

Another strong argument in favour of maintaining the link between PRSPs and HIPC relief is the prevalent rate of corruption that exists throughout the developing world. The World Bank and IMF have no guarantee that HIPC relief will go towards projects aimed at poverty reduction. This is a very important point to consider, and it is necessary to bear in mind the temptation of recipient countries to siphon off portions of the debt relief funds and to use them in other areas not related to poverty reduction. It is difficult to monitor every dollar of debt relief when total relief packages amount to millions of dollars, especially in countries with poor infrastructure. Furthermore, if the guidelines stipulated in the PRSPs were removed, HIPCs would no longer have any incentive to implement reform policies in their own time.

This issue of corruption is vital to the appropriation of HIPC funds. The IMF and World Bank will indeed withhold funds from a HIPC if that country is considered to be corrupt. However, a recent report published by Jubilee Research at the New Economics Foundation (2002) states that according to its extensive research, aid revenues are in fact being used wisely in countries with track records of corruption. The report concentrates mostly on African HIPCs, and concludes that, "African governments given debt relief have used the money to good effect" (Greenhill & Blackmore; 2002). This responsible practice displayed by African governments comes in the wake of the continents commitment to NEPAD, in which "African leaders are proposing that money should be ploughed into African budgets, returning ownership of the process to the countries themselves" (Greenhill & Blackmore; 2002).

In contemplating the two arguments outlined above it emerges that PRSPs should indeed be delinked from the delivery of HIPC debt relief. However, this is not to say

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[58] See: www.worldbank.org/hipc/prsp

that poverty reduction strategy papers should be discontinued or that they do not perform a necessary regulatory function. In fact, PRSPs should still be advocated by the World Bank and IMF, but HIPC relief should no longer be contingent on their completion. There are two main reasons for arriving at this conclusion. Firstly, it must be asked, how effective can a partnership between unequal partners be? The World Bank and IMF claim to be equal partners with the HIPCs in the development of the PRSPs, yet one wonders how equal the partnership is with one party holding all of the funds, and the other trying to prove their worthiness in order to gain access to those funds.

Secondly, offering money in return for economic and political reform is tantamount to structural adjustment, no matter how partisan a country is to its own reform. However, to ask the World Bank and the IMF to hand over millions of dollars in assistance without having any mechanism in place to monitor the allocation of those funds is imprudent. Instead, the solution lies in delinking PRSPs from the HIPC Initiative so that HIPCs are no longer forced into making lofty reform policies they cannot keep, whilst still maintaining the monitoring mechanism of the PRSP so as to ensure that relief funds are spent wisely, and in sectors where funds are most needed. HIPCs will still be required to prepare and adhere to participatory PRSPs, but will no longer be required to implement it before relief is afforded to them. The NEPAD proposal echoes the calls from NGOs to link debt relief to 'costed poverty reduction outcomes', which should be the internationally agreed Millennium Development Goals (Greenhill & Blackmore; 2002). This approach to PRSPs removes the conditionality element, and will also preclude the World Bank and IMF from freezing relief flows if countries do not remain on track with the reforms committed to in their PRSPs. Relief should only be stopped in the incidence of corruption, where funds are not used to eradicate poverty in that country. Table 7 summarises the arguments for and against the delinking of PRSPs from the HIPC Initiative.

Table 7

Delinking PRSPs from the HIPC Initiative

Arguments against delinking of PRSP and HIPC Initiative	Arguments for delinking PRSP and HIPC Initiative
PRSPs ensure accountability, and that HIPC relief is spent wisely	PRSP has not been successful in aligning macro-economic and poverty issues
PRSP is a way to promote good governance	Unrealistic time frames lower the quality of PRSPs
PRSPs are nationally owned	The link between HIPC and PRSP is delaying debt relief
PRSPs ensure civil society is included in a country's poverty reduction strategy	PRSPs are pro-growth oriented, and as a result do not place poverty concerns at the heart of policy making
	The World Bank and the IMF remain the final arbiters of PRSPs
	The content of PRSPs is dictated by the World Bank and IMF
	Many HIPCs do not have access to up-to-date poverty data or the institutional and analytical capacity to undertake extensive poverty monitoring
	PRSPs are perceived to be a new form of structural adjustment

Source:Eurodad (2000$_a$); The United Nations Commission on Human Rights (2001)

4.2.3 Funding the HIPC Initiative

The issue of funding is central to the success of the HIPC Initiative. Unfortunately, funding issues seem to be prevalent as donors, especially commercial and small multilateral creditors, fail to maintain the integrity of their pledges. This growing lack of sufficient resources to fund the Initiative has become a major concern to the IMF and World Bank. In the face of the Millennium Development Goals, it is essential that HIPC relief not be offset by reductions in aid flows (IMF/IDA; 2002: 8). Many creditors, especially the multilateral and smaller bilateral creditors, are experiencing difficulty securing the funds required to cover their share of financing for the HIPC Trust Fund (The United Nations Commission on Human Rights; 2001: 8). The main reasons for the deflated expectations about financing the Initiative relate to the politics of budget appropriation in the principal donor countries. What this effectively means is that heads of states of creditor nations may pledge amounts of money to the HIPC Trust Fund, but at the end of the day, their respective legislative bodies and parliaments must decide how much money to appropriate (The United Nations Commission on Human Rights; 2001: 8)[59]. Thus, there exists a discrepancy between what is pledged and what is actually delivered. Furthermore, additional bilateral aid results in added budgetary costs for creditor nations, which is often met with resistance from parliament. This resistance is becoming ever more fierce as opposition to foreign aid continues to grow throughout the western world (The United Nations Commission on Human Rights; 2001: 8). The 23 small multilateral institutions that make up a mere 7% (see Chapter Three) of the total funding of the HIPC Initiative, have thus far been unwilling to fund their contribution from their own resources because of concern that such an action would threaten their own financial integrity (The United Nations Commission on Human Rights; 2001: 9). Unless the HIPC Initiative can garner sufficient financial support, it will be unable to fulfil its obligations to qualifying HIPCs.

The issue of funding is one issue on which all parties agree. The IMF and World Bank echo the concerns raised by the NGO community that unless perfect integrity regarding pledges is maintained, the HIPC Initiative will flounder and will be unable to forward aid to HIPCs. The IMF/IDA (2002: 19) emphasise the importance of maintaining this integrity. "While the Bank and the IMF have been quick in beginning the delivery of debt relief, many smaller African and Arab creditors, as well as the EU have been slow to reach agreements with HIPCs that have reached their decision point…in addition, arrears clearance by several countries, agreed with creditors as part of interim relief for the decision point, has not progressed as anticipated. Finally, some multilateral creditors have not yet indicated their intention to provide relief to their HIPC debtors. It will be important for the international community, including the Bank and the Fund, to continue to urge these creditors to provide their share of HIPC relief".

Further, the IMF/IDA (2002: 24) elaborates upon this problem of funding by bringing to attention the fact that the "Bank's and the Fund's decisions on the HIPC Initiative

[59] See also: Kuttner (2000)

are not binding on creditors and the Paris Club Agreed Minutes create no obligations on the part of non-Paris Club creditors. The non-cooperation of these creditors would have adverse implications for the debt sustainability of HIPCs". The IMF therefore encourages HIPCs themselves not to leave negotiations up to the World Bank and IMF, but should "fully assume the responsibility of obtaining debt relief and engage actively in a constructive dialogue with their non-Paris Club official bilateral and commercial creditors and seek debt relief within the framework of the Enhanced HIPC Initiative" (IMF/IDA; 2002: 24). The Bank and the Fund encourage HIPCs to rely on moral suasion to secure the necessary participation (IMF/IDA; 2002: 24).

In conclusion, to overcome this obstacle of a lack of funding, it is apparent that the onus lies in all incumbent parties to do what they can to boost participation. As the IMF/IDA report states, the international community can lobby the donors to commit funds. The IMF recently sold a portion of its gold reserves for an estimated US$1 billion to raise extra funding for HIPCs, and should continue to emphasise the importance of broad based participation by all creditors. Perhaps most importantly, HIPCs themselves must engage their creditors to encourage them to offer relief packages under the HIPC Initiative.

4.2.4 The Debt Trap

The main goal of the HIPC Initiative is to make debt more sustainable. As we saw in Chapter Three, a sustainable debt burden means being able to service debt obligations without the effects of poverty caused by a lack of funding in other sectors. A country is said to have a sustainable debt burden if its debt-to-export ratio does not exceed 150%, and its debt-to-fiscal revenue ratio does not exceed 250%. Our evaluation must therefore ask, how much will the HIPC Initiative contribute to making debt sustainable?

On the one hand, critics argue that the Enhanced HIPC Initiative does not provide a credible guarantee that heavily indebted countries will escape their current debt trap. The term 'debt trap' refers to the cycle of indebtedness and poverty perpetuated by an unsustainable debt burden. Once a HIPC has received debt relief, and is judged to have a sustainable debt burden, what mechanisms are in place to ensure that the country does not relapse into further indebtedness? It is argued that the HIPC Initiative does not take this into account. Under the Enhanced Initiative, whether a country remains free of the debt trap after HIPC assistance rests on three broad assumptions[60] that may or may not hold.

Assumption 1: Exports will increase. In the coming decade, exports will need to grow at almost twice the rate of the 1990s if HIPCs wish to service their debts. This will require the terms of trade for these countries to improve by 0.5% per year, though they deteriorated by 0.7% a year during the 1990s.

Assumption 2: Borrowing will decline. Under the IMF – World Bank projections, new annual borrowing is projected to decline from 9.5% to 5.5% of HIPCs' GNP, and grants are projected to double. But a few HIPCs, such as Ethiopia and Sierra Leone, are already borrowing at higher than expected rates – including from the World Bank.

Assumption 3: External shocks won't matter much. At one time or another, most HIPCs have been victims of droughts, floods, commodity price collapses, infectious disease emergencies, and costly civil conflicts. All these affect export earnings, and usually require emergency borrowing.

Birdsall and Deese (2002: 3)[61] argue, "the HIPC Initiative does not provide the resources countries need to overcome their crippling disadvantages". The authors argue further to cite past conflicts, ethnic tensions, health care crises, weak property rights, low levels of human capital, the prevalence of HIV/AIDS, and a continuing inability to compete in the global economy because of dependence on primary commodity exports, as contributors to the poverty and debt traps. The HIPC Initiative addresses unsustainable debt burdens with the intention of freeing up money to address the issues listed above. However, critics maintain that the solution to many of these issues lies far beyond the realm of the HIPC Initiative.

Gunter (2002: 10)[62] adds that HIPCs may not escape the debt trap through receiving HIPC assistance. The author draws upon a United States General Accounting Office report that unequivocally states: "unless strong, sustained economic growth is

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[60] See Birdsall and Deese (2002); Pettifor, Thomas & Telatin (2001)

[61] See also IMF/World Bank (2001) "Debt Relief for Poverty Reduction: The Role of the Enhanced HIPC Initiative" pg 15; Mills and Collins (2001) for Eurodad's perspective.

[62] See also: Eurodad (2001)

achieved, the Initiative is not likely to provide a lasting exit from debt problems" (Gunter; 2002: 10). The report cautions that the growth assumptions of the World Bank and IMF may be over-optimistic. GNP growth projections for some HIPCs range between 7-9% per annum over a period of twenty years (Gunter; 2002: 10). According to Gunter (2002: 10) over-optimistic growth rates affect debt sustainability in two ways. Firstly, they imply over-optimistic growth rates for a country's exports. Secondly, they underestimate a country's future financing needs. Given that the HIPC framework defines debt sustainability largely by a debt-to-export ratio, overestimation of exports and underestimations of future financing needs result in unrealistically low future debt-to-export ratios, which then indicate unrealistic long-term debt sustainability. Unless consistently high growth rates are accurately achieved, the accumulation of new debt after HIPC relief will be unavoidable. "Additional loans can in fact only be serviced if the growth rates of the GNP, export earnings and public revenue are greater than net new indebtedness" (Kaiser; 2001: 5). The World Bank and IMF must be more realistic in their growth projections, as many HIPCs struggle to top an annual growth rate of more than 3 – 4% (Kaiser; 2001: 5).

In answer to the concerns raised by NGOs and advocates of the 'third way' detailed in the above argument, the World Bank and IMF strongly maintain that HIPCs can escape the debt trap and enjoy sustainable debt burdens if they are committed to economic and political reform. The World Bank and the IMF argue that the challenge of achieving and maintaining external debt sustainability has become more difficult with the deterioration of the global economic environment (IMF/IDA; 2002: 4). "Virtually all HIPCs are heavily dependent on primary commodities for their export earnings and government revenue, and as a result they would remain vulnerable to declines in world commodity prices and other adverse exogenous developments" (IMF/IDA; 2002: 4). It must be borne in mind that the IMF and World Bank are not purporting to hold the permanent antidote to unsustainable debt, and do allow for the possibility that HIPCs' debt burdens may rise over the years. In answer to NGOs accusations that the HIPC Initiative is a half-hearted attempt to release HIPCs from their debt burdens, the World Bank and IMF maintain that "it would be unrealistic to expect external debt indicators to follow a smooth monotonic downward trend after the HIPCs have reached their completion points, or that countries will always stay below the HIPC debt sustainability thresholds. Instead, there may be fluctuations over time, and the objective of policies should be to ensure that the underlying trend is downward" (IMF/IDA; 2002: 4).

To ensure this downward trend of unsustainable debt, the IMF and World Bank advocate a 'twin pillar' approach (IMF/World Bank; 2001: 16). This twin pillar approach involves HIPCs own efforts on the one hand, and actions by the rest of the world, on the other. This approach underscores the need for all HIPCs to implement policy reforms to diversify their export base, supported by appropriate external financing (IMF/IDA; 2002: 4). HIPCs are also expected to give special attention to macroeconomic policies; structural policies; public sector management; governance and market institutions; and social inclusion (IMF/World Bank; 2001: 17).[63] The external financing to be given to HIPCs will be on highly concessional terms or in the form of grants due to HIPCs' limited repayment capacity. HIPCs are also required to improve their investment environments through strengthening rule of law and eliminating excessive and discriminatory regulations so that investors become more willing to invest in the country. Perhaps most importantly, HIPCs are required to implement prudent policies on new borrowing. The second pillar is made up of actions to be taken by the rest of the world. These actions include: more aid, grants and low-cost loans to be made by creditors; and greater access to rich country markets that would allow HIPCs to compete, especially in the agricultural sector.

From these arguments, it is clear that the World Bank and IMF do have avenues of action that may be pursued after countries have implemented the funds received from HIPC relief to ensure that debt sustainability is maintained.

When taking into account both arguments, it becomes apparent that NGOs are in fact arguing that the HIPC Initiative should ensure that HIPCs are permanently exhumed from their debt burdens, and that after HIPC relief, recipient countries should have no debt whatsoever. Conversely, the World Bank and IMF defend their HIPC Initiative by maintaining that it was never meant to be a panacea that would permanently obliterate HIPC debt. It is therefore clear, that both parties are arguing two different points. NGOs and critics are pushing for the total write-off of debts within a

[63] For more detailed discussion on these policy areas, see: IMF/World Bank (2001)

framework that is clearly ill equipped to deliver such demands, and the World Bank and IMF are doggedly maintaining their support of the HIPC Initiative to ease debt burdens, not to eradicate them. The bottom line therefore, is that 'third way' theorists advocate escaping the debt trap through ensuring that HIPCs have no debt burden, whilst the World Bank and IMF advocate escaping the debt trap through ensuring a sustainable debt burden. It is problematic therefore, to determine which argument has more merit. However, if one contemplates the abject poverty experienced by half the population on this planet, and the urgency of helping these people, one feels compelled to sympathise with the NGO argument that the HIPC Initiative is inadequate to ensure that HIPCs permanently escape the burden of unsustainable debt. Perhaps the answer lies in expanding the HIPC Initiative so as to ensure that debt sustainability is reached and maintained. Referring back to the theoretical framework laid out in Chapter One, it is apparent that neo-liberal policies are in fact ensuring that HIPCs remain overly burdened with debt. It seems that no amount of debt relief will change this unless the paradigm of development itself is changed. The competitive nature of neo-liberalism with its free market doctrine, high interest rates, low social spending, and inherent hierarchy of 'haves' and 'have nots', serves to perpetuate the necessity for developing nations to continue to borrow funds for development, whilst opening up their markets that are ill-equipped to compete in the global market place. This lack of performance leads to low export incomes, and this in turn means that developing countries are unable to honour their debt obligations.

4.3 Debt Relief and the Millennium Development Goals

There has been much talk about what the face of poverty will look like in the years to come. Combative measures such as the HIPC Initiative are in place to ensure that poverty is eradicated, or at least substantially minimised. The Enhanced HIPC Initiative has tenable ties to poverty reduction, and is working alongside a framework known as the Millennium Development Goals (MDGs). It is important to appreciate the profundity of the MDGs, as much of the relief given to HIPCs under the Enhanced HIPC Initiative will be channelled into attaining these development goals. The Millennium Development Goals set out a new vision for humanity, as encapsulated in the United Nations Millennium Declaration, "We will spare no effort to free our fellow men, women and children from abject and dehumanising conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want" (Greenhill; 2002_a: 6)[64].

These development objectives have been adopted by NGOs and governments alike. However, NGO proponents of the MDGs advocate total debt cancellation, and are adamant that without it, poverty will be even worse in 2015. In the eyes of MDG campaigners, the HIPC Initiative is inadequate, and is a dismal failure[65]. This austere judgement takes into consideration the shortcomings of the HIPC Initiative described in this chapter, but also draws strength from the fact that a discrepancy exists between the amount of aid given under the HIPC Initiative, and the amount of aid required to meet the MDGs. Greenhill (2002_a: 8) posits, "the 42 HIPC countries as a whole cannot afford to make any debt service payments. In fact, we find that even if all the debts of these 42 countries are cancelled, the HIPCs will need an additional $30 billion in aid each year if there is any hope of meeting goal one (Box 2) while for the other goals, a total of $16.5 billion will be needed". The Jubilee Research Report claims that "even when all 42 countries have fully passed through the HIPC Initiative, the savings will only amount to a paltry $3.5 billion per year" (Greenhill; 2002_a: 8).

[64] See also: United Nations Human Development Report (2001)

[65] See: Toye (2002)

Box 2

The Millennium Development Goals

1. **Eradicate extreme poverty and hunger**
   - Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.
   - Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

2. **Achieve universal primary education**
   - Ensure that, by 2015, children everywhere, girls and boys alike, will be able to complete a full course of primary schooling

3. **Promote gender equality and empower women**
   - Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

4. **Reduce child mortality**
   - Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

5. **Improve maternal health**
   - Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate

6. **Combat HIV/AIDS, malaria, and other diseases**
   - Have halted, and begun to reverse, the spread of HIV/AIDS
   - Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases

7. **Ensure environmental sustainability**
   - Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
   - Halve by 2015, the proportion of people without sustainable access to safe drinking water
   - By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

8. **Develop a global partnership for development**

Source: Jubilee Research Report; 2002

Table 8 compares the required annual total growth rates per region to meet the MDGs and the current annual total growth rates[66].

Table 8

Actual vs. required total annual growth rates to meet MDG targets

Region	Required total annual growth (%)	Actual total annual growth (%)
Sub Saharan Africa	8.2	2.5
Middle East and North Africa	4.7	3.0
East Asia and Pacific	4.3	7.2
South Asia	5.5	5.6
Latin America and the Caribbean	10.2	3.3
East Europe and Central Asia	3.9	-1.5

Source: World Development indicators 2002; Jubilee Research Report 2002; Njagih (2002)

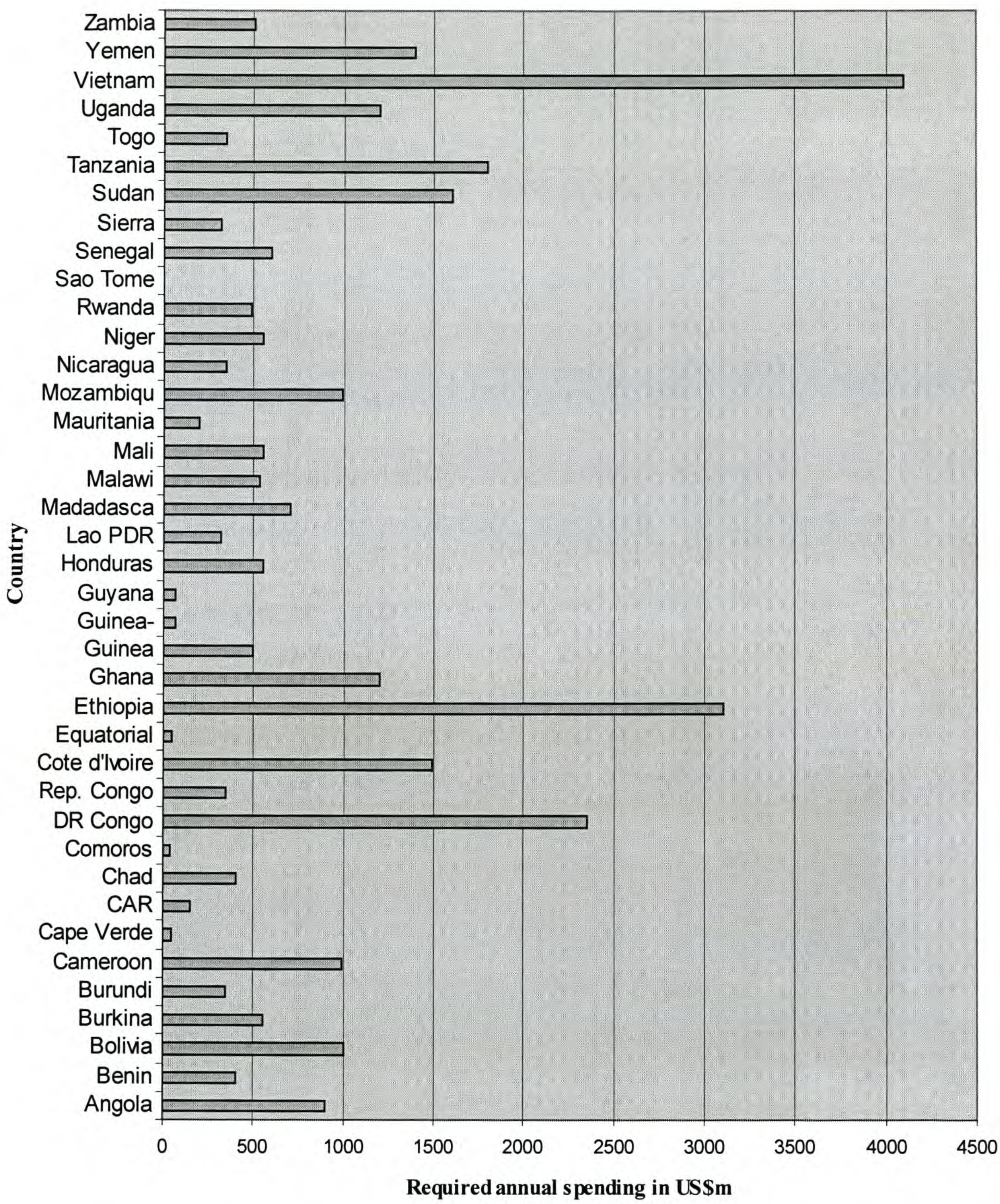
From this table it is clear that if the current annual growth rates continue in the same vein, the development goals will not be reached. Only the East Asia and Pacific, and South Asia regions have satisfactory growth rates in terms of reaching the MDG requirements. Greenhill (2000_a: 9) argues that for the broad objectives of the MDGs to be met by a few prospering countries such as India and China, "is not within the spirit of the MDGs" and that "mass poverty should be eradicated across all countries and regions of the world".

Looking specifically at the heavily indebted poor countries, and the vast sums of money they will have to spend annually to reach the Millennium Development targets, one cannot help but feel a sense of hopelessness. Figure 7 illustrates this dismal reality.

[66] Total growth is per capita growth plus population growth

Figure 7

Total required spending to meet Millenium Development Goals 2-7



Source: Greenhill (2002)

How do the World Bank and IMF rate the chances of meeting the MDGs by 2015? The World Bank has carried out projections to determine whether countries can achieve the poverty reduction goal by the year 2015, and assumes two different scenarios. In scenario A, with economies assumed to grow at the World Bank forecast rate, the world as a whole would be on track to halve the share of people living on less than US$1 per day by 2015, and the total number of poor people is projected to decline to about 800 million from 1.3 billion (First United Nations Decade for the Eradication of Poverty 1997-2006; 2001: 5). However, in this scenario, not all regions would be on track, with the World Bank indicating that in particular, Africa would be far from reaching the goal even under the favourable growth scenario.

In scenario B, with economies assumed to grow at less than forecasted growth rates, the world as a whole would not reach the target by 2015, and the total number of poor in the world (excluding China) would remain unchanged from the 1990 level of about 1.3 billion (First United Nations Decade for the Eradication of Poverty 1997-2006; 2001: 5). The World Bank notes that if aggregate GDP growth in developing countries over the next 15 years were equal to the average attained during the 1990s, then progress in poverty reduction would be even slower than in scenario B, and the number of people living on less than US$1 a day in 2015, would be only marginally lower than in 1998. Therefore, even in the most optimistic scenario, 2.3 billion people will still be living on less that US$2 per day in 2015 (First United Nations Decade for the Eradication of Poverty 1997-2006; 2001: 5-6). According to the World Bank, the forecast for Africa is of particular concern because the number of people living in poverty would increase in all the scenarios. The World Bank estimates that much will depend on progress with the other dimensions of poverty, including life expectancy, school enrolment, and child mortality (First United Nations Decade for the Eradication of Poverty 1997-2006; 2001: 5). HIV/AIDS is also a major obstacle.

Given the World Bank's dismal projections, it becomes apparent that Africa is not expected to reach the poverty reduction targets set for 2015, unless money is poured into social spending. In HIPCs, this desperately needed money will be sourced from debt relief from the HIPC Initiative. However, if one takes into consideration the obstacles faced by HIPCs of preparing PRSPs which in some cases slows the delivery of debt relief; a general lack of funding that jeopardises the entire goal of the

Initiative; and the fact that HIPCs are unlikely to escape the debt trap after HIPC assistance, it becomes clear that the HIPC Initiative is not doing enough to contribute to attaining the MDGs by 2015. This fact begs the question, if the World Bank and IMF linked the Enhanced HIPC Initiative to poverty reduction, yet indicators show that poverty goals will not be reached, why do the institutions continue to push the HIPC Initiative as the solution? It is therefore the conclusion that the HIPC Initiative will not fulfil its promises of debt reduction for the purposes of poverty reduction.

Chapter Five: Conclusions

5.1 Conclusion

In the final reckoning, does the heart of the HIPC Initiative outweigh the feather of clear conscience and integrity? Is the HIPC Initiative commensurate to the need for worldwide poverty eradication? This contentious debate can be argued from many different angles. However, when evaluating the HIPC Initiative from both the World Bank and IMF perspective, and the NGO perspective, taking into consideration the degenerative and persistent nature of poverty, it becomes palpably clear that the HIPC Initiative is inadequate to effectively tackle the conundrum of poverty eradication through the mechanism of debt relief[67].

In Chapter One, the question was posed: given the abject poverty experienced by over one billion people in the developing world, and the alacrity with which it must be addressed, is the HIPC Initiative extensive enough, deep enough or broad enough to effectively challenge worldwide poverty? In attempting to answer this question, this dissertation laid the foundation in Chapter Two by sketching the causes of the debt crisis, and establishing where things stand today. Against the backdrop of Chapter Two, Chapter Three introduced the Heavily Indebted Poor Countries Initiative and detailed its machinations so as to familiarise the reader with the complicated processes of the Initiative. Chapter Four embarked on an analysis of the most critically debated areas of the HIPC Initiative taking into consideration the arguments from the two protagonist groups: the World Bank and IMF on one hand, and on the other the views advocated by NGOs.

The contending views of the two perspectives were contrasted as they commented on determining debt sustainability, conditionality and the use of PRSPs, the funding problem, prospects for escaping the debt trap, and finally how the HIPC Initiative is contributing to achieving the Millennium Development Goals. The conclusions were as follows: Firstly, the method of determining debt sustainability used by the World Bank and IMF is too high, and preclude the inclusion of countries whose debt-to-

[67] See: Mayot & Greenhill (2002)

export ratios are below 150%, but that still have inadequate funds for social spending due to debt service obligations.

Secondly, given the problematic nature of PRSPs, and the World Bank and IMF's move away from structural adjustment policies, PRSPs should be delinked from the HIPC Initiative so that debt relief is no longer contingent on implementing a PRS. Instead, PRSPs should be used to ensure that corruption and a lack of monitoring does not impede the allocation of funds to the social sectors that need them. PRSPs should still be required, but HIPCs are free to implement their own reforms at their own pace. A concern is however, that this approach to PRSPs will not provide adequate incentives for HIPC countries to implement basic reforms necessary to maintain debt sustainability[68].

Thirdly, it was concluded that, in keeping with the two pillar approach, the onus lies with HIPCs, the international community, as well as the World Bank and IMF to encourage creditors to become involved in the HIPC Initiative, and to honour their pledges.

Fourthly, it was ascertained that the HIPC Initiative is not adequate to guarantee permanent exit from the debt trap for HIPCs. However, it was highlighted that the World Bank and IMF, and NGOs seem to be on a different page regarding the required outcomes of the Initiative. NGOs advocate a permanent escape from unsustainable debt burdens through both writing off debts, and allocating additional funds for poverty eradication. Conversely, the World Bank and IMF advocate the reduction of debt burdens to sustainable levels so as to alleviate poverty. It was concluded that the HIPC Initiative should be revised so as to be in more of a position to guarantee a permanent exit from debt.

Finally, the HIPC Initiative was evaluated in light of its contribution to attaining the Millennium Development Goals. After documenting both the views expressed by NGOs, and the World Bank and IMF, it was concluded that the HIPC Initiative is not contributing to the halving of poverty by 2015.

By arriving at these conclusions, this study has helped to resolve the question posed in Chapter One. The final conclusion is that taking into consideration the arguments

[68] See: Berthelemy (2001)

posed throughout this discussion, and the conclusions reached, the HIPC Initiative is neither extensive, deep nor broad enough to effectively challenge poverty.

The table below gauges whether the HIPC Initiative is working in all the countries eligible for relief. There are 27 countries in which the HIPC Initiative is deemed not to be working, and a paltry 11 countries in which the Initiative can claim success.

Table 9

Who is HIPC working for? The World Bank's verdict

Country	**Is HIPC Working?**	What the World Bank Says
Completion Point Countries		
Bolivia	No	Debt service > 19% of exports by 2003
Burkina Faso	Yes	Has been given US$129m additional relief at Completion Point in light of worsened global outlook
Mozambique	Yes	
Tanzania	Yes	
Uganda	No	Debt > 150% exports
Decision Point Countries		
Benin	No	Debt > 150% exports
Cameroon	Yes	
Chad	No	Debt > 150% exports
Ethiopia	No	Debt > 150% exports
Gambia	No	Debt > 150% exports, off track with IMF programme
Ghana	Yes	
Guinea	No	Off track with IMF programme
Guinea-Bissau	No	Debt > 150% exports, off track with IMF programme
Guyana	No	Off track with IMF programme
Honduras	No	Off track with IMF programme
Madagascar	Yes	
Malawi	No	Debt > 150% exports, off track with IMF programme
Mali	Yes	
Mauritania	Yes	
Nicaragua	No	Debt > 150% exports, off track with IMF programme
Niger	Yes	
Rwanda	No	Debt > 150% exports
Sao Tome & Principe	Yes	
Senegal	No	Debt > 150% exports
Sierra Leone	Yes	
Zambia	No	Debt > 150% exports, off track with IMF programme, interim relief delayed

Other Countries		
Angola	--	World Bank says debt already sustainable
Cote d'Ivoire	No	No relief to date
Burundi	No	No relief to date
CAR	No	No relief to date
Comoros	No	No relief to date
Congo DR	No	No relief to date
Congo Rep.	No	No relief to date
Lao PDR	No	No relief to date
Liberia	No	No relief to date
Myanmar	No	No relief to date
Somalia	No	No relief to date
Sudan	No	No relief to date
Togo	No	No relief to date
Vietnam	--	World Bank says debt already sustainable
Yemen	--	World Bank says debt already sustainable

Source: Greenhill; 2002$_b$

5.1.1 Recommendations for the Way Forward

The HIPC Initiative is deeply flawed. Building upon an inherently inadequate system will not purge it of its shortcomings, nor will it quell the calls from NGOs and other institutions for a revised approach to poverty reduction. According to Callaghy (2001: 36), "[d]iscourses have the most impact when they resonate with important parts of an existing context, and in a compatible language". Activists lobbying for change within the HIPC Initiative can use its shortcomings as a point of departure to bring into effect vital reforms necessary for the deepening of poverty reduction efforts. The reforms suggested below are a summation of the shortcomings documented in this chapter.

1. Earnest steps must be taken to de-link HIPC debt relief from the PRSP process.
2. Immediate relief should be given to HIPCs. Delays caused by under-funding as well as producing and implementing a satisfactory PRSP, mean that the delivering of relief does not reflect the urgency of the situation.
3. The World Bank and IMF should not be given the exclusive role as overseers of poverty reduction programmes in poor countries. Other United Nations

agencies such as UNDP, UNICEF, and UNCTAD should be brought into the process.

4. Some NGOs advocate the total write off of all debts owed by HIPCs. In doing this, the slate will be wiped clean, and HIPCs will be able to direct 100% of their resources towards poverty alleviation. Thus, a new round of talks has been called for as well as a "clear commitment that all debts owed by HIPCs will be written off with no conditions, and that the list of eligible countries should be expanded to include countries that previously failed to enter the HIPC process because they failed to submit to IMF conditions on time" (The United Nations Commission on Human Rights; 2001: 18).
5. Developing nation governments, multilateral financial institutions and social movements working on global economic justice issues must undertake serious dialogue on how to integrate macroeconomic policy issues with broader social development goals (The United Nations Commission on Human Rights; 2001: 18-19).

5.2 Further Avenues of Research

The exploration of debt relief and the HIPC Initiative is a vast sphere of contending views and contradicting dispositions. The purpose of this dissertation has been to advance to the crux of the matter through providing a narrative of the causes of the debt crisis, and probing the most important perceived weaknesses of the HIPC Initiative. The confines of this dissertation does not allow for a multi-faceted examination of the history of debt, nor does it allow for a scrutiny of the HIPC Initiative replete with every argument and its antithesis, and it is for this reason that the main contending arguments of the World Bank and IMF on the one hand, and NGOs on the other were applied to the most salient arguments surrounding the HIPC Initiative.

5.2.1 Total Debt Cancellation

The contentious issue of total debt cancellation is a major point of interest in the debt relief narrative. Pro-poor advocates such as Jubilee and Oxfam International continue to lobby relentlessly for 100% cancellation of both multilateral and bilateral debts, arguing that until this is done, HIPCs will never escape the debt trap (Birdsall and Deese; 2002). The arguments both for and against a write off of all debts are multi-faceted, and extremely sensitive. However, to delve into the ins and outs of this argument would digress from the focus of this dissertation, as the HIPC Initiative is not concerned with 100% debt cancellation[69].

5.2.2 More Aid Rather than Debt Relief

A strong concern that emerged in the research for this dissertation was the contention that debt relief be replaced by an intensified amount of foreign aid. Birdsall and Deese (2002)[70] address this issue in detail. These authors maintain that increased aid flows will not extract HIPCs from the debt trap any more expediently than debt relief for three major reasons[71]: Firstly, debt relief limits the harm caused by donor bad habits and ineffectiveness. Secondly, debt relief allows for poor country ownership of development strategies. Thirdly, debt relief can foster private investment.

5.2.3 What Comes Next?

The issue of 'life after the HIPC Initiative' has not been addressed in this dissertation, other than examining the prospects of escaping the debt trap. It is however, a major concern for HIPCs that pass through the HIPC Initiative, as these countries will not emerge miraculously purged of the debt trap. The HIPC Initiative is the vital first step, but is not a pervasive remedy. What is the next step after HIPCs have passed through the HIPC Initiative? Do the World Bank and IMF have contingency plans in place, other than concessional loans, to preclude against a scenario in which HIPCs spiral back into unsustainable debt? The industrialisation of the developing world is a process of continual arrival as ventures such as the HIPC Initiative nudge these countries closer to industrialisation, passing each milestone along the way. Birdsall and Deese (2002: 5) maintain that "the HIPC program has institutionalised a new approach to development assistance, linking debt relief and new aid not only or primarily to traditional macroeconomic conditions, but also to the development of

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[69] For sources on debt cancellation, see: Jubilee.org; Ramo and Branegan (2000); Duodo (2000); Eurodad (1999_c)
[70] See also: Singer (1984)

coherent strategies for reducing poverty", but maintain that this is only the first step. The authors detail a proposed nine-point action plan that may be implemented to ensure that development efforts gather momentum. It is vital that such action plans are investigated so that the next phase of development can begin after the HIPC Initiative has run its course.

5.2.4 Reform Incentives

Jean-Claude Berthelemy (2001) has explored the effects of the HIPC Initiative on creating "reform incentives in debtor countries in favour of economic adjustment and reform" (2001: 1). The author addresses the debt overhang argument, which states that a debt reduction can create favourable incentives in an indebted country. This is based on the premise that a too heavy debt service burden implies that all efforts to improve future revenues through investment and reforms would only increase future payments to creditors, therefore creating a bias towards immediate consumption of all available incomes and against adjustment efforts (Berthelemy; 2001: 4). HIPCs are resisting the HIPC Initiative due to, amongst other reasons, the fact that structural adjustment is considered to be pervasive throughout the Initiative. The author looks specifically at whether the HIPC Initiative is able to create the right incentives in HIPCs to strive for economic reform, rather than be bullied into it by PRSPs. The answer seems to critically depend on the HIPC government's initial policy stance. "When the government was already committed to poverty reduction, or to good economic governance, poverty reduction expenditure was already budgeted before the HIPC program" (Berthelemy; 2001: 14). Berthelemy terms these HIPCs as 'virtuous' cases.

Conversely, Berthelemy asserts that countries lacking a previous political commitment to sound economic governance and poverty reduction will not be spurred into action by the HIPC Initiative. The author sites the slow process of the Initiative, and the resulting disillusion as reasons for this. The paper also attends to the issue of exactly what impact external shocks will have on the success of the HIPC Initiative. The HIPC Initiative makes no exception for disaster prone countries, and for this

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[71] For a more in-depth and detailed analysis, see Birdsall and Deese (2002)

reason, when natural disasters, or wars occur, afflicted countries are forced to grovel for loans to mend the damage. These loans come with hefty interest rates, and cannot be written off under the HIPC Initiative. What good will the reduction of multilateral debt do, if the HIPC is forced to pay off other debt burdens? Berthelemy argues that in this scenario, development suffers most profoundly.

The issue of debt relief has become intricately entwined with efforts of poverty reduction. The developed world has an obligation to pool their resources and know-how, put aside the desire for personal gain, and commit to eradicating poverty on our planet. This is no longer a matter of economics, but a matter of conscience.

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